**Departmental Audit and Evaluation Branch**
**Corporate Services**
**Department of Indian Affairs and Northern Development**

# INTERIM EVALUATION OF THE EXPERIENCES TO DATE WITH FINANCIAL TRANSFER ARRANGEMENTS

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# EXECUTIVE SUMMARY

## Introduction

Over the past 10 years, the Department of Indian and Northern Affairs (DIAND), in co-operation with First Nations, has worked to develop progressively more flexible funding arrangements for First Nations. Evaluation of experiences with the latest of these arrangements, the Financial Transfer Arrangement (FTA), is yielding encouraging results.

## Background

In October 1983, the Special Committee on Indian Self-Government (the Penner Report) recommended introducing funding arrangements that would give First Nations expanded administrative or policy authorities under existing legislation. Consequently, in 1986, DIAND introduced Alternative Funding Arrangements (AFAs). Evaluations of experiences with AFAs and other types of funding arrangements showed that First Nations were keen to pursue the objective of funding on a more government-to-government basis. These evaluations also pointed to a need to strengthen the Department's accountability framework, consistent with the observations of the Auditor General. In response, over the last four years, DIAND has implemented several pilots of a new form of flexible funding arrangement, the FTA, designed to reinforce both ministerial and local accountabilities.

The implementation of the experiences with Financial Transfer Arrangements (FTAs) is to provide for an accountability regime across all First Nations and Tribal Councils. In terms of resourcing, the approach is to streamline the resource management process in a manner which seeks First Nations participation in managing a moderated resource base over a multi-year period. In terms of inter-departmental cooperation, it is intended that funding from a number of federal government departments be made available through a single federal arrangement in response to the desire expressed by First Nations to reduce administrative burdens.

## Purpose of the Evaluation

The Department has undertaken to submit to Treasury Board an evaluation of the experiences to date with FTA. As the FTA concept is still largely at the developmental and experimental stages, this evaluation is formative in nature, with a focus on providing lessons learned and suggesting areas for improvement.

**Evaluation Approach and Methodologies**

The evaluation was done using in-house and contracted resources in consultation with an evaluation advisory committee. Evaluation methods consisted of three on-site case studies and one on-site visit with First Nations and Tribal Councils participating in pilots with block funding, telephone interviews with 55 participating and non-participating First Nations and Tribal Councils, visits at four DIAND regional offices and one district office, interviews with other DIAND regional and headquarters officials, interviews with representatives of other federal departments, and a comparative analysis of the pilot agreements.

**Evaluation Findings**

**Evaluation Issue #1: To what extent have the targets and objectives of the experiences to date been met?**

Overall, the evaluation found that the experiences to date with FTAs have been positive. They represent the introduction of a full service, block funding arrangement in that they provide First Nations and related organizations with increased budgeting and programming responsibilities subject to minimum conditions. The move toward global block funding continues to be relevant: it responds to First Nation desires for increased responsibilities and authorities, and enables the Department and First Nations to operate more effectively with moderated resources.

In terms of ***implementation status,*** as of April 1996, 29 First Nations and Tribal Councils had agreements in place and an additional 25 were in the process of entering agreements. The majority of this latter group joined the FTA process at the end of the data collection phase of the evaluation. *The evaluation found that there has been an evolution in the nature and content of the pilot agreements.* While all focused on variety of practices with block funding, areas which have evolved over the implementation of the pilots include accountability, resourcing, and agreement terms and conditions. The initial pilots were implemented under a variety of names such as second generation AFAs, Community Based Transfer Payments, Transfer Payment Agreements, with the later agreements being introduced as Financial Transfer Arrangements (FTAs).

A primary objective of the funding arrangement is to foster ***management flexibility*** in local programming and budgeting. The experiences to date have resulted in the introduction of a block funding arrangement beyond that provided under AFA and participating First Nations welcome the resulting flexibility. Several barriers to using the flexibility of AFAs (such as the number of programs included in the block funding agreement, the way these programs are resourced, and the number of agreements and amendments per First Nation) have been significantly reduced under the pilot FTAs. The new arrangement therefore provides substantially more flexibility than other funding arrangements.

Another objective of the funding agreement is to enable ***interdepartmental co-operation*** whereby other federal government department funding is included within DIAND funding arrangements. The evaluation found the extent to which this objective has been achievement is mixed. Where it has been implemented, it is viewed as a best practice. It is a First Nation-driven process that promotes efficiencies at the First Nation and departmental level by streamlining the funding process. Further standardization of reporting practices and accountability conditions and tools across departments would further promote this objective.

**Evaluation Issue #2: Do the experiences to date address identified needs for change in terms of accountabilities? And if so, how?**

Sound information management systems and budgeting were viewed as fundamental to successful implementation at the local level. Toward this end, having experience with an AFA prior to entering into FTA was seen as beneficial. Entry assessments were found to be instrumental in helping to develop or confirm the necessary requirements, and were viewed as one of the best ways of determining whether sound accountability systems are in place.

In terms of ***local First Nation accountability,*** the experiences with FTAs to date have helped promote local accountability measures and integrate these within the agreements. Local accountability frameworks are being developed and substantial developments in this area were found in the later pilot agreements. The evaluation found that First Nations used a variety of accountability mechanisms including appeal mechanisms, local conflict of interest guidelines, submission of audit to membership, and program evaluation. There was no appreciable difference between the level and type of accountability mechanisms used by participating and non-participating First Nations. Questions were raised, however, regarding DIAND's role in monitoring and enforcing such measures.

The experiences to date and the ongoing development of the national generic model agreement have been instrumental in promoting development of a ***Departmental accountability framework*** and promoting review of the Department's reporting requirements. The later agreements have made clear moves toward enhanced terms and conditions. Although the AFA reporting guide was generally felt to be adequate for First Nations participating in the pilots, concerns were expressed about the implications of this level of reporting in future agreements. Concerns were also raised over whether the authorities represented by the FTAs were being clearly communicated, particularly the flexibility of programming authorities subject to the minimum program terms and conditions in relation to provincial legislative requirements. Accountability concerns were also noted regarding what a financial reporting regime under an FTA will represent, particularly for the ability of the Department to report on actual program expenditures. Although DIAND officials had mixed views on data reviews, it is clear these reviews provide an important element of the Departmental accountability framework and are necessary for developing a baseline database on which historical resourcing methodologies can be applied.

**Evaluation Issue #3: What have been the impacts of the experiences to date, intended and unintended?**

In terms of the ***short-term impacts,*** the evaluation found that the experiences to date with FTA have been positive. The majority of First Nations with a pilot were either satisfied or very satisfied, and none stated that they were dissatisfied. However, concerns were expressed by First Nations regarding the evolution of FTAs and the stricker local accountability requirements and resourcing levels found in the later pilot FTAs. Although the FTA is still in the early stages of development, the experiences to date have generally resulted in the intended short-term impacts : greater local accountability; more independent, formal relations between the Department and First Nations; increased flexibility to apply funds; and promoting the design of community programs and long-term human resources planning. Resource management processes were generally found to be more streamlined for the Department and First Nations; however, they involve increased resources on the part of First Nations to administer.

**Evaluation Issue #4: What lessons can be found in terms of delivery process? What are the factors of success?**

Several lessons were learned for future implementation. Among these are the need for sound information management systems at the local level, the need for thorough data management at the outset of the process, open information sharing between all parties, and transparency in the funding process. The need for consistent communications regarding FTAs is essential to ensure clear expectations and understanding of the FTAs.

Other factors of success include the provision of training to assist First Nations and Tribal Councils in adopting the increased programming and budgeting responsibilities associated with FTAs, ensuring entry assessments are undertaken which emphasize local information management systems, and data reviews prior to entry to ensure the accuracy of data being used.

**Outstanding Implementation Issues and Developments**

The evaluation identified a number of outstanding issues regarding future FTA implementation such as confirming the national generic FTA model, clarifying agreement terms and conditions, and further clarifying the roles and responsibilities within the funding process among sectors and directorates at DIAND headquarters. The evaluation recommendations and suggestions are provided to assist in addressing these questions and promote those factors identified within the evaluation which contribute to successful implementation.

Towards these ends, department management have undertaken a series of initiatives starting with a meeting of Senior Management in Winnipeg in October, 1996 to further define the FTA and future implementation processes. The decisions arriving from this meeting go a long way towards addressing the recommendations outlined below. Senior Management were supportive of the FTA concept and a decision was taken to continue the FTA pilots. Other actions taken include: initiating steps to finalize the national generic model including formalized consultations and communications with First Nations; undertaking activities to assist First Nations to prepare for block funding such as data review and program reviews; adopting consistent funding practices across regions; and identifying essential data requirements of First Nations. Although it is recognized that the government will continue to be highly program focused and that central agencies will continue to place significant program expectations upon DIAND, Senior Management identified the benefits of block funding, particularly in terms of the management flexibility it affords to First Nations.

**Recommendations**

The main suggestions and recommendations contained in Section 11 of the report are provided below.

*Process*

- It is recommended that, prior to initial entry, joint management assessments be undertaken with all First Nations, regardless of former funding arrangement, with a particular focus on local information management systems and budgeting. Management plans should be developed, in collaboration with the First Nation, where entry requirements are not met.

- It is recommended that orientation sessions be held with Chief and Council at the outset of the agreements. In addition, orientation of Chiefs and Councils elected during the term of the agreement should be undertaken, with this option built into the agreements.

- It is recommended that a training program be developed that focuses on building program and financial management capacity for First Nation officials and staff.

*National Generic Model*

- It is recommended that the national generic model be confirmed as soon as possible.

- To assist in finalizing the national generic model, it is recommended that a formal process be established, such as an intersectoral task force consisting of senior headquarters and regional departmental officials, along with a working group and a working timetable.

- It is recommended that the division of responsibilities among sectors and directorates within headquarters for funding arrangements (such as developing and monitoring program terms and conditions, reporting, etc.) be clarified and clearly communicated throughout the Department.

*Communications*

- It is recommended that training, including workshops on FTAs for DIAND financial officers and program analysts, be integrated into the implementation process.

- It is recommended that ongoing internal communications be established, such as a newsletter, regarding FTA status and developments.
- It is suggested that the department facilitate inter-First Nation communications by promoting the development of a national inventory of best practices among First Nations in areas such as policy, programming, and accountability initiatives.

*Resourcing*

- It is recommended that a national, standard, transparent distributive resourcing model be used between the Department and First Nations.

*Local Accountability*

- It is recommended that the Department and First Nations work together to implement a limited number of pilot projects aimed at promoting the use of evaluation at the community level. These pilots would provide an evaluation framework, consistent with the block funding initiative, for use by First Nations and would foster the use of self-evaluation at the community level.

*Departmental Accountability*

- It is recommended that First Nations be consulted as part of the Department's review of its reporting requirements.

- It is recommended that financial information (at the program level consistent with Departmental authorities) on actual expenditures be provided on a national basis within the Departmental estimates.

- It is suggested that consideration be given to replacing the 1986 Treasury Board Submission with a revised FTA authority.

- It is recommended that there be a DIAND FTA agreement data review guide, with appropriate monitoring criteria and checklists like those in the entry assessment guide. These reviews should be conducted prior to signing the FTAs and the standardized program requirements and evaluation methodology should be communicated to First Nations prior to the reviews thereby assisting in garnering greater acceptance at the First Nation level.

*Inter-Departmental Cooperation*

- It is recommended that the Department's information management system be updated to reflect interdepartmental initiatives.

- It is recommended that DIAND senior officials in coordination with central agencies approach other federal departments about entering into memorandums of agreement re-affirming the commitment to enter into interdepartmental block funding arrangements with First Nations.

# SECTION 1 - INTRODUCTION

## Purpose of the Report

This report presents the findings for the evaluation of the experiences to date with Financial Transfer Arrangements (FTAs) between the Department of Indian Affairs and Northern Development (DIAND) and First Nations and Tribal Councils. It describes the evaluation approach, methodologies, and the FTA pilots and their associated Departmental and local accountability frameworks. The report also presents an evaluation of processes, accountabilities, resourcing, and short-term impacts. It describes lessons learned and makes recommendations for future implementation. Supporting lines of evidence are published under separate cover.

## Purpose of the Evaluation

This evaluation has been undertaken to meet Treasury Board expectations for information on the initial implementation and results of the FTA experiences to date. As set out in the Evaluation Terms of Reference contained in Annex 1, the evaluation addresses the following issues:

- To what extent have the targets and objectives of the experiences to date been met?
- Do the experiences to date address identified needs for change in terms of accountabilities? And if so, how?
- What have been the impacts of the experiences to date, intended and unintended?
- What lessons can be found in terms of delivery process? What are the factors of success?

## SECTION 2 - EVALUATION APPROACH AND METHODOLOGY

### Evaluation Approach

The evaluation was conducted with a mixture of in-house and contracted resources in consultation with an evaluation advisory committee. The evaluation is formative in nature with the primary focus on lessons learned and future improvements. Primary evaluation methods consisted of three on-site case studies and one on-site visit with First Nations and a Tribal Council participating in the FTA pilots, telephone interviews with participating and non-participating First Nations, visits at four DIAND regional offices and one district office, telephone interviews with other regional offices, in-person interviews with DIAND headquarters officials, telephone and in-person interviews with representatives of other federal departments, and a comparative analysis of the agreements.

The evaluation advisory committee consists of three First Nation and Tribal Council representatives, regional and headquarters representatives from DIAND, and representatives of Health Canada and Treasury Board Secretariat. The evaluation advisory committee is chaired by a representative of DIAND's Audit and Evaluation Branch.

### Methods

Five main data collection methods were employed during the evaluation. Data collection took place between January and March 1996, with some follow-up activity in April and May 1996. Each data collection activity is described below, with the principal reports published under separate cover.

**First Nation/Tribal Council On-site Case Studies/Visits:** Case studies were conducted with the three First Nations that have had the longest experience with an FTA (Moose Deer Point, Ontario, Alexander First Nation, Alberta, and the Nuu Chah Nulth Tribal Council [NTC], British Columbia). Each case study employed a combination of file reviews, interviews with the Chief and Council/Tribal Council representatives and staff, and discussion groups with First Nation members. In the case of the NTC, on-site visits were undertaken with four member tribes. Telephone interviews were also conducted with Chiefs and/or administrators of seven other NTC tribes. An additional on-site visit was conducted with the Fisher River First Nation, Manitoba, which had had only six months' experience with an FTA at the time of the visit (Appendix 1).

**First Nation/Tribal Council Telephone Interviews:** Telephone interviews were undertaken with 55 First Nations Tribal Councils: 25 First Nations had participated in an FTA pilot (14 had an FTA and 11 were in the process of obtaining an FTA) and 30 had not participated in a pilot. The findings of the four on-site visits were integrated with these interviews (Appendix 2).

**DIAND Headquarters and Regional Reviews/Interviews:** One-to-two-day reviews of four regional offices (Alberta, British Columbia, Manitoba, and Ontario) and one district office (in Ontario) were conducted between January and April 1996. These reviews included in-person interviews with regional directors general (RDGs) and/or associate RDGs, selected directors, managers and financial services officers, as well as reviews of the agreements and file reviews. Telephone interviews were undertaken with eight officials in the other regional offices, and in-person interviews were conducted with eight operational and senior officials at headquarters (Appendix 3).

**Other Federal Department Interviews:** Telephone interviews were planned with four other federal departments involving five representatives in Ottawa. Of these, three interviews were undertaken with representatives of Health Canada, Solicitor General, and Human Resources Development (HRD). Interviews were also carried out with five regional representatives of Health Canada and Solicitor General as part of the case studies (Appendix 4).

**Comparative Analysis:** Finally, a comparative analysis was undertaken of 15 FTAs experienced to date and three model arrangements (Saskatchewan, British Columbia, and the draft national generic model). The comparison looked at how the agreements varied in Departmental and local First Nation accountability, program terms and conditions, reporting, interdepartmental co-operation and resourcing (Appendix 5).

## SECTION 3 - PROFILE OF EXPERIENCES TO DATE WITH FTAS

### Background

The experiences to date with FTAs represent another step in the Department's ongoing development of funding arrangements, which has spanned more than 10 years. Over this period, the Department and First Nations have moved from relying on funding instruments called Contribution Agreements (CAs) to progressively more flexible arrangements that reflect local First Nations' needs and the changing role of the Department.

Through devolution, DIAND's involvement in direct service delivery has progressively decreased while that of First Nations has increased. The process began in 1956 with the first education transfers, and accelerated throughout the 1970s and 1980s. Of the funding appropriated by Parliament to the Indian and Inuit Affairs Program in 1996/97, almost 82% was transferred to First Nations and their organizations through funding arrangements as per the *Departmental Business Plan, 1996-1997*. A further 11% was transferred to the provinces, while the Department itself managed only 7%.

Along with devolution has come increasing recognition of First Nations operating as a different level of government. In October 1983, the Special Parliamentary Committee on Indian Self-Government submitted a report (the Penner Report) containing recommendations on the establishment of Indian governments. To this end, the Penner Report proposed action in three areas. One of these areas is administrative or policy changes that are possible under existing legislation. In 1986, the Department of Indian and Northern Affairs introduced a new funding arrangement, the Alternative Funding Arrangement (AFA), to enable more local control.

All parties recognized that for those First Nations that did not opt for an AFA, CAs (the default funding arrangement at that time) did not represent a practical mechanism. The 1988 audit conducted by the Auditor General found that CAs contained inherent constraints to good management practices and facilitation of management capacity at the First Nation level. In response, the Department and First Nations developed Comprehensive Funding Arrangements (CFAs).

Based upon the experiences with AFAs and CFAs, and following DIAND's 1993 evaluation of the long-term impacts of AFAs, it was found that First Nations were keen to pursue funding on a more government-to-governmentbasis. As well, the evaluation indicated a need to strengthen the accountability framework surrounding these transfer payments, consistent with the observations of the Auditor General. In response, the Department implemented several pilots (experiences) with a new form of financial transfer arrangement, the FTA, based upon AFA authority.

It is important to note that there has been an evolution in the FTAs used in the pilot experiences and that the earlier pilots adopted a number of differences between each other, including being implemented under different names. Early pilots were largely based on hybrid AFAs, while later experiences initiated in late 1995/96 and early 1996/97 include the development and implementation of the new accountability frameworks.

Initial pilots implemented focused on utilizing the AFA authorities to the extent possible, focusing on implementing one funding arrangement, with as much of the funding possible being transferred in a block form with funding adjustments being based upon a global formula such as population growth and some form of inflation indices as opposed to AFAs where much of the funding is based upon actual outputs, involving more than one funding arrangement and hence more than one accountability regime. The first pilots were referred to under different names such as second generation AFAs, super AFAs or AFA-plus. Other names included Community Based Transfer Payments (CBTPs) as used in the Ontario region and the Transfer Payment Agreement (TPA) referred to in the Alberta region. Later pilots have become to be known and implemented with the name of FTAs. The evolution in the pilot agreements is addressed at length in Section 4 of this report and a detailed comparison of the agreements is provided in Appendix 5, the Comparative Analysis published under separate cover.

**Objectives of the Experiences to Date**

Although the FTAs are still under development, their overall objective is to consolidate, standardize, and streamline Departmental funding arrangements in a manner that emphasizes:

- local checks and balances to support probity and the achievement of value in the use of public funds;
- participation of First Nations in managing the budgets available to them to meet competing needs; and,
- identification and transfer of responsibilities to First Nations in a manner that minimizes risks for both parties.

Consistent with the Alternative Funding Arrangements, the specific objectives of the FTAs are to create a relationship that will:

- enable First Nation/Tribal Councils to design/establish community programs to meet community priorities;
- enable First Nation/Tribal Councils to apply funds in accordance with community needs; and,
- foster the accountability of First Nations/Tribal Councils to their members without compromising ministerial accountability to Parliament.

**Overview of FTAs**

The implementation of the FTAs is intended to provide an accountability regime across all First Nations that will make the relationship between the Crown and First Nations clearer to band members and the general public and therefore more effective. This accountability framework is to support the development of local checks and balances that will promote local accountability and stability through time.

In terms of resourcing, the approach is to streamline the resource management process in a manner that seeks First Nations' participation in managing budgets to meet competing needs while ensuring delivery of the service requirements set out within the agreement. The approach should enable First Nations to manage a moderated resource base over a multi-year period, while providing them with incentives to find the most cost-effective service delivery processes and reducing disincentives to use own-source revenues.

It is ultimately intended that funding from various federal government departments will be provided to First Nations through a single federal funding arrangement or similar agreement. This responds to the desire of First Nations to reduce the complexity and administrative burden inherent in dealing with many federal departments with various methods of operation. (Appendix 6 presents a detailed overview of FTAs.)

**Range of Departmental Funding Mechanisms**

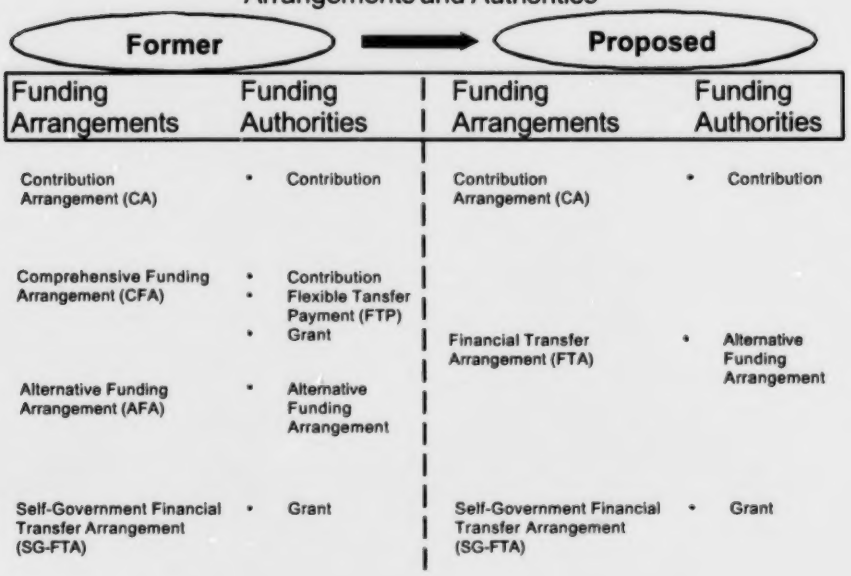
A funding arrangement is the document signed by DIAND and the funding recipient. It can involve more than one funding authority, each of which has specific terms and conditions as agreed to between Treasury Board and DIAND. Chart 1 presents an overview of the current funding regime and that proposed under the FTAs. Currently, the Department uses three main funding arrangements, which are briefly described below. Chart 2 presents an overview of the terms and conditions of each of the Department's funding arrangements and associated authorities.

## Chart 2: Overview of DIAND Funding Arrangements

| | Comprehensive Funding Arrangements (CFA) | | | AFA | FTA | SG-FTA |
|---|---|---|---|---|---|---|
| | **Grant** | **FTP** | **Contribution** | | | |
| Eligibility | Current default arrangement | | | Application subject to entry criteria | Management assessment to determine if adjustment necessary to manage risk | Selection process determines which negotiations to proceed |
| Duration | Maximum 1 year | | | Maximum 5 Years | | |
| Transferability of funds | Transferable | Limited authority to transfer funds if min. program terms are met | Not transferable | Transferable, except major capital | | |
| Program redesign | Not applicable | | | Programs may be redesigned subject to minimum standard program requirements | | Programs may be redesigned subject to legislative requirements |
| Budget Development & Adjustments | Annual formula funded | Annual formula funding by program | Based upon actuals or specified formulas | Base budget based upon previous year or two. Programs funded on fixed five-year projected funding horizon &/or by annual fixed actuals (mutually agreed upon) | Base budget established on basis of historic methodologies. Core budget adjustment (may reflect population & inflation index within reference levels) | Annual adjustments to budget by applying macro adjustment factors |
| Program Reporting | DIAND Reporting Guide: Program reporting for output & resource data with different reporting dates by program over the year | | | Annual AFA Return, frequency & amount of other reporting dependent upon the extent fixed actuals used | To be determined | Variable |
| Audit & Financial Reporting | Audit following DIAND Audit Guide | | | Expanded Consolidated Audit - DIAND Year-End Reporting Handbook | Expanded Consolidated Audit - Year End Reporting Handbook | Audited consolidated financial statements |
| Accountability | Primarily accountable to members | Accountable to constituents for resources & services, & to the Department for services & service standards. | Accountable to the Department for the services as per terms & conditions | Primarily accountable to members for services and resources | Accountable to members for leadership, sound management & effective/ efficient program delivery; and to funding body for use of funds and achievement of program objectives | Accountable to members for allocation and expenditures |
| Legislation | Indian Act | | | | | Self-Gov. Leg. |

Chart 1

Former and Proposed Spectrum of Funding Arrangements and Authorities




1) ***Comprehensive Funding Arrangements (CFAs)*** are the basic default funding agreement. They include three authorities: grants, contributions, and flexible transfer payments.

(2) ***Alternative Funding Arrangements (AFAs)*** are an optional funding mechanism that increases the discretion of a First Nation beyond that available through a CFA. To enter an AFA, a First Nation must successfully pass a joint review of its accountability and management systems. AFAs are typically five years in duration, can include one or more of the basic services and programs, and can be funded for a predetermined projected amount or reimbursed based upon actual expenditures. Surpluses and deficits are to be the responsibility of the recipients.

(3) ***Self-Government Financial Transfer Arrangements (SG-FTAs)*** are negotiated under self-government legislation. They define a funding base for a set of programs or services, the standards that may apply, a process for adjusting the base, any requirements for reporting or evaluation, and a process for periodic renegotiation of the agreement.

**Accountability Frameworks**

FTAs are intended to give community leaders flexibility in the management of funds and delivery of services, subject to a common accountability framework that is briefly outlined below. The accountability framework is based on two elements: a contract type of relationship between the federal government and the First Nation governing the management of funds and delivery of specified services; and a political relationship with the constituents for whose benefit the funds are provided, following the accountability principles of transparency, disclosure, and redress common to democratic governments in Canada.

Departmental Accountability Framework

The Departmental accountability framework is based upon the elements defined by the Auditor General (1994) as essential components of accountability. They include delegation, agreement on results, empowerment, accounting for results, and the approval of results. Each of these elements is described in Table 1.

Table 1: Overview of Departmental Accountability Framework

| Elements of Framework | Overview |
|---|---|
| Delegation of Authority | • Amount, adjustment and duration<br>• Service delivery responsibilities<br>• Indemnification and basis for withdrawal |
| Performance Contract | • Specific results to be achieved and how they will be measured: minimum service delivery requirements, solvency, and compliance<br>• Operations Plan detailing planned expenditure of funds<br>• Local policies to support probity in the use of funds, including conflict of interest guidelines, loans policy, disclosure of information |
| Empowerment | • Guarantee that delegate has authority to redesign programs and allocate funds in accordance with community priorities, subject to minimum service requirements<br>• Codification of local accountability practices |
| Reporting for Results | • Audited financial statements and management attestations to service delivery<br>• Accountability information reporting against objectives<br>• Periodic evaluations on request<br>• Transaction reports in accordance with Departmental manuals, instructions |
| Approval/ Sanction of Results | • Departmental access to financial and program records for data verification or compliance reviews regarding delivery of mandatory services<br>• Delegator confirmation of the results of the review of reports submitted by the delegate and any remedial action to be initiated |

First Nation Local Accountability Framework

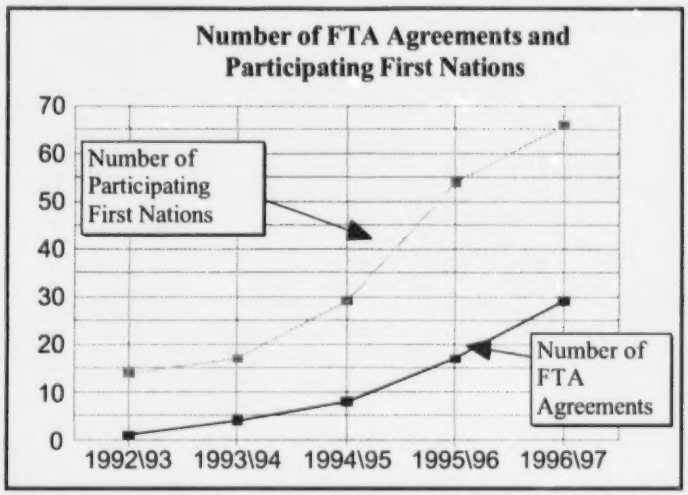
Table 2 outlines the basic principles upon which First Nation local accountability frameworks are to be based. The funding arrangements set out local accountability requirements. Each First Nation develops its own accountability codes and processes for managing funds. These codes can be likened to a financial administration act, which reflects the community situation while meeting federal requirements for approval through community meetings or by-laws.

| Table 2: First Nation Local Accountability Framework | |
|---|---|
| Transparency | • Sets a system of checks and balances in place to ensure probity, value for money, and accountability in local decision making |
| Disclosure | • The steps involved in preparing expenditure plans and financial statements, and the application of prescribed public approval processus, must be known and understood by citizens<br>• Information must be provided to citizens in manner that clearly explains plans and actions |
| Redress | • Provides citizens with the means to appeal administrative decisions that affect them individually, through appeal boards that hear matters of individual entitlement, or collectively through either the elections process or the legal system |

## SECTION 4 - IMPLEMENTATION STATUS AS OF APRIL 1996

- **INITIAL PILOTS HAVE BEEN IMPLEMENTED AND NEW PILOTS ARE BEING ADDED.**
- **THE NATURE AND CONTENT OF THE FTAS HAVE EVOLVED IN A NUMBER OF AREAS SUCH AS ACCOUNTABILITY, RESOURCING, AND AGREEMENT TERMS AND CONDITIONS.**

**Chart 3**

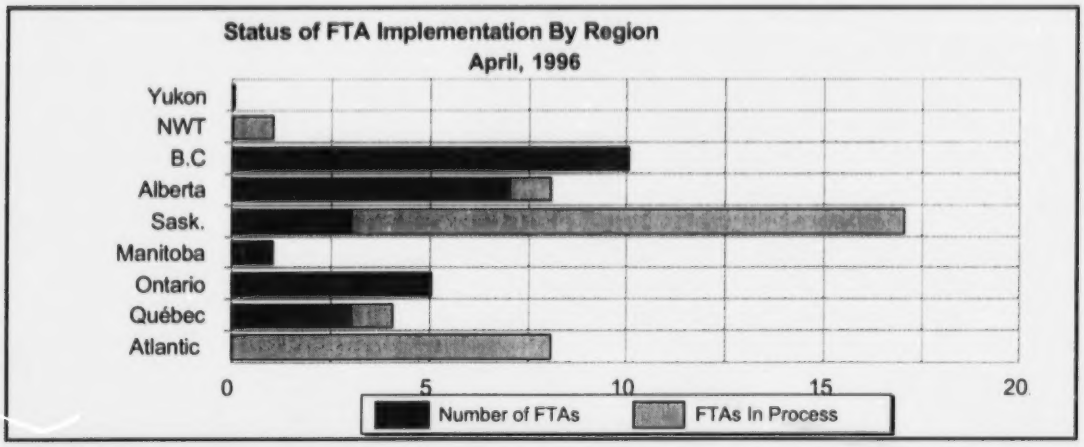



Initially, 25 FTA pilots were approved for development. This was later expanded to include an additional 30 for the fiscal year 1996/97.

Chart 3 presents the number of pilots by year between 1992/93 and April 1996. As this chart shows, there are now 29 signed FTAs across the country.

Chart 4 presents the number of FTAs signed and in the process of being signed, by region, as of April 1996. There are 25 agreements in the process of being signed. Once all First Nations with FTAs in process have signed, approximately 17% of all First Nations will receive funding through an FTA.

**Chart 4**



In 1995/96, FTA funding to First Nations, excluding Tribal Council funding, amounted to $85 million or 3% of all funds flowing to First Nations. In 1996/97, this amount is expected to reach $167 million or 10% of total funding.

It is important to note that there has been an evolution in the FTAs used in the pilot experiences. Early pilots were largely based on hybrid AFAs, while later experiences initiated in late 1995/96 and early 1996/97 include the development and implementation of the new accountability frameworks.

Chart 5 presents an overview of the areas where a variety of practices and innovations were encountered during the evaluation.

**Chart 5: Evolution in the Experiences To Date With FTAs**

- Introduction and experimentation with a variety of *Reference Levels* that are nationally or regionally based
- Experimentation with a variety of adjustment clauses involving population and inflation indices
- Introduction of Departmental Accountability Frameworks including data quality validation clauses and dispute resolution mechanisms
- Introduction of Local Accountability Frameworks including required local codes &/or by-laws
- Enhanced Agreement Terms and Conditions such as clarification to remedial action clauses and extended liability clauses
- Introduction of equity considerations in funding allocations to First Nations
- Revenue Generation aspects recognizing federal contribution assists towards program delivery

## SECTION 5 - FTA DEVELOPMENT AND IMPLEMENTATION PROCESS

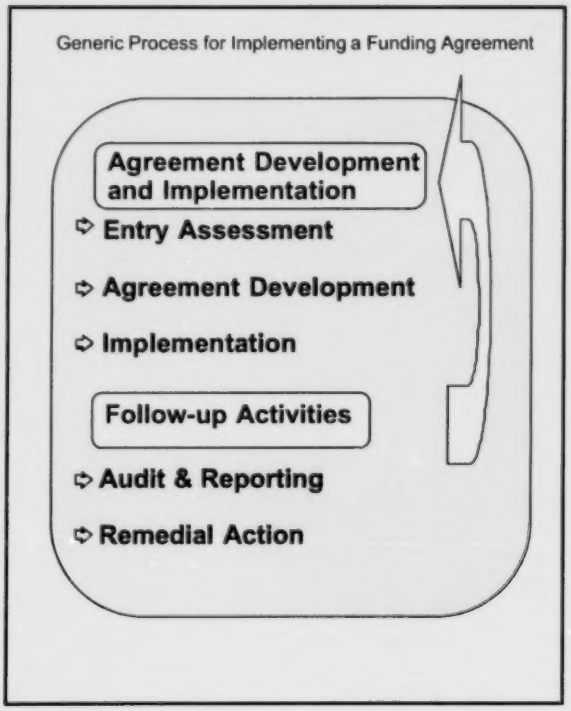
- **THE FTA EXPERIENCES TO DATE HAVE INVOLVED FEWER FUNDING AGREEMENTS PER FIRST NATION.**
- **ENTRY ASSESSMENTS AND THOROUGH DATA QUALITY EXERCISES AT THE OUTSET OF THE PROCESS ARE FUNDAMENTAL TO SUCCESSFUL IMPLEMENTATION.**
- **DIVISION OF RESPONSIBILITIES WITHIN THE PROCESS BETWEEN FIRST NATIONS AND THE DEPARTMENT ARE RELATIVELY CLEAR; HOWEVER, FURTHER CLARIFYING THE DIVISION OF RESPONSIBILITIES WITHIN HEADQUARTERS WOULD ASSIST COMMUNICATIONS AT THE REGIONAL OFFICE AND FIRST NATION LEVELS.**
- **A MORE FORMAL PROCESS IS REQUIRED FOR FINALIZING THE NATIONAL GENERIC MODEL.**

This section of the report addresses the process for implementing and developing the FTA pilot agreements and the national generic FTA model. Findings relating to the division of roles and responsibilities, and to the perceived strengths and weaknesses of stakeholders within the process, are also presented. (Appendix 6 contains a detailed description of the activities within the process.)

### Development and Implementation Process

Chart 6 presents the generic process for developing and implementing an FTA agreement. The specific process followed for the FTA pilots consisted of the following steps: presentation and selection; entry assessment; agreement development; agreement implementation; and monitoring and follow-up activities, including audit and reporting and remedial action if necessary. The activities involved in each of these steps are discussed below.

**Chart 6**



**Presentation and Selection**

The first step in the process was to identify potential First Nations/Tribal Councils that would be interested in participating in a pilot project. Although the criteria varied somewhat across regions, First Nations were generally chosen according to their experience under AFA and financial health. Of those participating in the pilots, 25 had had an AFA prior to entry and 4 had had a CFA. Presentation sessions were usually held with the selected First Nations in order to describe the FTA.

Most First Nation representatives interviewed stated that they initially learned of the FTA through the Department (80%) or through other First Nations or Tribal Councils (20%). These representatives gave the following reasons for deciding to participate in a pilot: flexibility of the agreement (54%); resourcing mechanisms and the potential increase in funding (35%); capacity for long-term planning (38%); and increased responsibility (23%).

Table 3 presents the type of information received by First Nations/Tribal Councils interviewed as part of this evaluation. Most First Nation/Tribal Council representatives (73%) stated that they received enough information about the FTA at the initial presentation. However, several later entrants (i.e., those currently negotiating agreements) felt that they would have benefited from more information.

**Table 3: Initial Information Provided to First Nations**

| Information Type | Percentage of First Nations Receiving Information (With an FTA and in Process) |
|---|---|
| Departmental Presentations | 56% |
| Departmental Handouts | 52% |
| Draft or Generic Agreement | 28% |
| Statistics | 16% |
| Budget Estimates | 12% |

**Entry Assessment**

Entry to an FTA requires management assessments to (1) permit DIAND to assure Parliament that an adequate system of accountability is in place to support the sound management of the funds it transfers; and (2) to assist First Nations in preparing to assume new responsibilities or overcome any obstacles to entry. In later agreements, where an assessment standard is not met, a management action plan within the funding arrangement is to be developed.

A management assessment is an extensive document consisting of 44 pages and over 177 questions addressing topics such as organization, personnel management, program management, financial management, and technical management.

No specific entry assessment was done for most of the initial pilots (only 36% had an assessment). However, assessments were conducted for most later entrants (81%) into the pilots. The rationale for not undertaking an assessment was that these First Nations underwent one as part of their AFA which was viewed as sufficient by both regional officials and First Nation representatives.

According to regional officials, in instances where no entry assessment was required, internal DIAND assessments were undertaken. Through the case studies/on-site visit conducted for this evaluation, two instances were found where no assessment was undertaken due to having already conducted an entry assessment for entry into AFA. In another instance, where there was no AFA prior to entering an FTA pilot, a formal, extensive assessment was done. One of the case studies, however, showed that the initial AFA assessment may not always be current. As with other levels of government in Canada, the financial and political situations of First Nations can be dynamic.

The telephone interviews revealed that 65% of First Nations that did undergo an entry assessment reported that these were primarily conducted by both the First Nation and DIAND. Assessments sometimes involved consultants and other government departments. In 21% of the cases, assessments were undertaken by DIAND alone, and in 14% of the cases by the First Nation alone (with or without the use of consultants).

**Agreement Development**

Development of the agreement involves three activities: (1) program review (including specific audits or reviews of program areas such as education and social assistance); (2) development of the agreement terms and conditions; and (3) budget development.

The time required to develop the pilot agreements varied. Generally the early agreements took more time to develop than later ones. Overall, 38% of the pilot agreements took one year or more to finalize, with 62% taking six months or less. Interviews with the First Nations currently entering agreements showed four had been in the process for less than 6 months, and 3 for up to 12 months. However, four had been in the process 18 to 24 months.

Negotiations are held to adjust the approach used to allocate resources from a series of service-specific funding formulas to an approach whereby the recipient is provided with a core and non-core budget. Since the initial base budget is developed using established formula-driven levels, the data are assessed to ensure that these levels are correct. These data are used to determine trends, base and growth factors. For example, in one case study, post-secondary and elementary education, social assistance, and operations and maintenance data were all reviewed and brought up to date before the FTA budget was constructed. This step is important not only to ensure the proper level of financing but also to build trust between the First Nation and the Department, since it establishes a base upon which to conduct budget discussions and that all First Nations are treated in a consistent manner.

The evaluation showed that problems can develop if this initial review of the data is not done thoroughly. For example, it can lead to continued adjustments to base budgets throughout the duration of the agreement. In one case study, compliance reviews or data quality activity after the agreement was signed were found to have beneficial effects, enabling data shortcomings to be identified and corrected. In this case, however, the agreement contained no clause outlining how data issues were to be addressed, although the First Nation and the regional office dealt with the problem together. In the later agreements, such as the those used in the British Columbia model, this issue is specifically addressed and should help clarify responsibilities if data shortcomings emerge.

**Agreement Implementation**

The evaluation found that the number of funding arrangements between recipients and the Department has been reduced under the FTAs. Under AFAs, First Nations can have an AFA, CFA, and possibly one or more CAs, which are generally related to capital projects. For example, a sample of 16 First Nations with FTAs shows an average of 2.3 funding agreements per First Nation prior to entering into a pilot. The average number of agreements fell to 1.8 in the first year of entering into an FTA and to 1.2 in the second year. As these figures demonstrate, the objective of one agreement per First Nation has generally been achieved in the FTA experiences to date.

Long-term planning is directly related to the ability to establish budgets that are relatively consistent across time. One indicator of the success of long-term planning is the number of amendments undertaken. A sample of 10 FTA experiences over the last three years shows an average of approximately four amendments per agreement. This represents a substantial decline from that found in the earlier AFA evaluation. Some regional staff indicated that in some cases there have been more amendments than expected or desired, and that while some amendments, such as those related to capital projects, were necessary and appropriate, others were viewed as questionable. Officials noted, however, that steps are being taken to implement more controls. The Alberta Region, for example, is now taking steps to implement more controls by monitoring processing dates to proposed amendments.

It is important to note that each amendment represents a number of individual changes that are consolidated. Chart 7 outlines 39 individual changes entailed in 14 amendments for two First Nations taking part in the case studies. Chart 8 presents these same amendments in terms of the percentage distribution of dollar amounts. Overall, one-time amendments for projects or non-recurring programs involved the most amendments, followed by capital projects including operations and maintenance (O&M). Capital projects, including O&M, involved the largest percentage of dollar amounts, followed by adjustments to core funding that were not part of the annual formula adjustments.

**Chart 7**

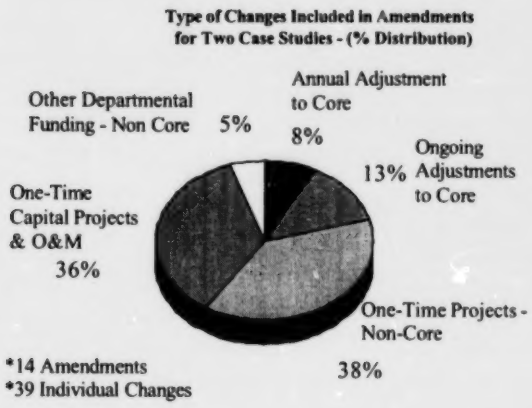
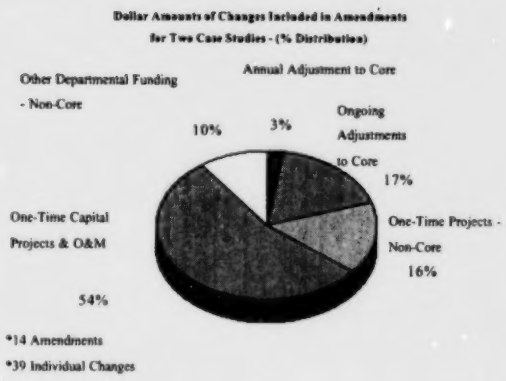

Type of Changes Included in Amendments for Two Case Studies - (% Distribution)
Other Departmental Funding - Non Core 5%
Annual Adjustment to Core 8%
Ongoing Adjustments to Core 13%
One-Time Capital Projects & O&M 36%
One-Time Projects - Non-Core 38%
*14 Amendments
*39 Individual Changes

**Chart 8**


Dollar Amounts of Changes Included in Amendments for Two Case Studies - (% Distribution)
Other Departmental Funding - Non-Core 10%
Annual Adjustment to Core 3%
Ongoing Adjustments to Core 17%
One-Time Capital Projects & O&M 54%
One-Time Projects - Non-Core 16%
*14 Amendments
*39 Individual Changes

### Monitoring and Follow-up

Follow-up activities include reporting, data quality reviews, and remedial action where required. Since only a few FTAs have gone through a complete audit cycle, findings on this stage of the process are limited. For those First Nations that have had at least one complete audit cycle, the follow-up process appears to have been working as intended.

In two of the First Nations taking part in the case studies, remedial action plans were in effect and were felt to be working as intended by both the First Nations and DIAND officials. The audits of two First Nations taking part in the case studies made the following recommendations for improving the implementation of future agreements: increased financial training; implementation of financial committee structures; increased use of technology; established management information procedures to ensure the program directors' knowledge of and control over the administration of their budgets; and common program policies for tribes receiving funding through Tribal Councils.

## Roles and Responsibilities

The division and clarity of the roles and responsibilities among the various parties in the FTA process are outlined below.

**DIAND-First Nations/Tribal Councils:** Regional DIAND officials who were interviewed indicated that the FTA has clarified division of funding and service delivery responsibilities between DIAND and First Nations. First Nations taking part in the case studies generally agreed with this assessment, although some First Nations participating in the telephone interviews felt that the process could be further defined.

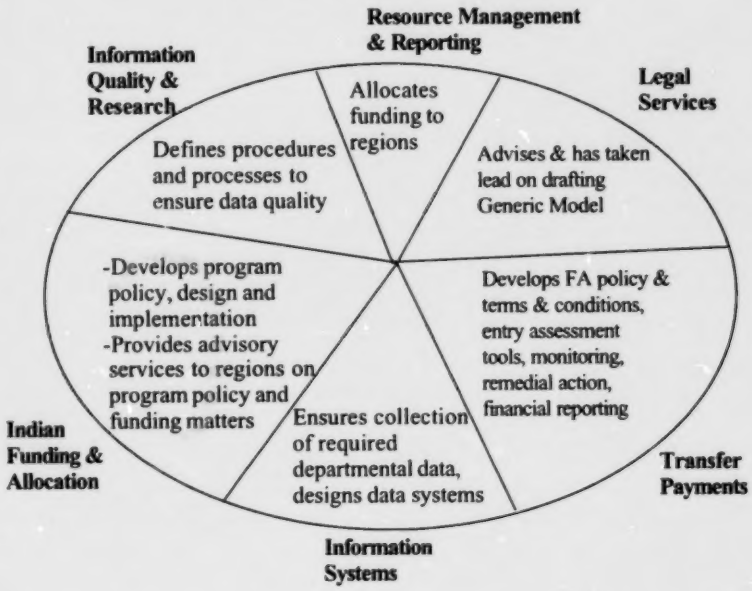
**DIAND-Other Federal Departments:** Regional staff consider the procedural divisions of responsibility between DIAND and other federal departments participating in the FTA pilots to be clear. From the interviews, it was evident that representatives of other federal departments tended to agree. However, both parties felt that a variety of ongoing operational issues, such as the timing of fund dispersal, require attention.

**Regional Offices:** Regional staff consider the procedural divisions of responsibility within DIAND to be as follows: the regional office negotiates and implements the agreements, while headquarters provides support and policy guidance. However, with respect to the new agreements, it was observed that direction and response from headquarters has tended to be slow and hence some regions decided to develop their own regional generic models.

**Headquarters**: Chart 9 presents the primary directorates within headquarters involved with funding arrangements and their related roles and responsibilities.

With the re-alignment of program specialists in headquarters, clarifying the division of operational responsibilities was viewed as an ongoing task. Some interviewees saw a need to clarify roles and responsibilities among the various parties within headquarters, particularly in terms of responsibility for developing standard program terms and conditions.

**Chart 9: Distribution of Responsibilities within Headquarters**


Resource Management & Reporting
Allocates funding to regions
Information Quality & Research
Defines procedures and processes to ensure data quality
Legal Services
Advises & has taken lead on drafting Generic Model
-Develops program policy, design and implementation
-Provides advisory services to regions on program policy and funding matters
Indian Funding & Allocation
Develops FA policy & terms & conditions, entry assessment tools, monitoring, remedial action, financial reporting
Transfer Payments
Ensures collection of required departmental data, designs data systems
Information Systems

**National Generic Model Development Process**

Respondents noted that the FTA process needs to be seen in the context of the internal/external factors that have had an ongoing impact on the division of the roles and responsibilities and on the development of the pilot agreements and the national generic model. Among these factors has been the evolution of the FTA from its original concept and scope, which has in turn dictated who needs to be involved; the decentralization of headquarters functions to the regions; the ongoing evolution of the Department toward a funding agency; the re-alignment of program specialists within headquarters; and the fiscal environment in which the Department operates and the consequent need for increased Departmental accountability. In addition, most regions have initiated consultations both formal and informal at the local and regional levels as part developing their regional models.

With respect to the transition toward a funding agency, respondents saw parallels with similar efforts to move from program-based, micro-management to block funding, such as the introduction of block funding for the territories or Established Program Financing (EPF), and noted that such processes are long-term and complex.

An iterative process within headquarters and between headquarters and the regions has helped solidify the vision and philosophy of the FTA. Funding on the basis of programs is viewed as unrealistic and a consensus has emerged on the need to move toward a block funding format in conjunction with more Departmental and First Nation accountability. Representatives of some headquarters directorates felt, however, that increased participation and consultation earlier on would have helped forge this consensus sooner.

The decentralized nature of the Department was also viewed as having an impact on the division of responsibilities within the FTA process. While decentralization has resulted in more innovation and faster implementation, it also raises concerns regarding the standardized application across regions, particularly in resourcing and agreement terms and conditions. Some officials, both within headquarters and the regions, raised the need for a stronger headquarters presence in this area. However, the decentralized nature of the Department and the capacity of headquarters to undertake such a function were noted as potential challenges.

Work is progressing on three tracks to develop the national generic model: resourcing, reporting, and accountability. The drafting of the national generic model is being led by Legal Services and Transfer Payments, headquarters, and Funding Services in the regions. In this regard, increased participation of the various other parties through a more formal process was an option some thought should be considered, particularly since the scope of FTA is so wide. They argued that such an approach would help strengthen and consolidate the vision and philosophy of the FTA and improve communications. Such a formal process was viewed as requiring some form of official sign-off, with senior management input so that formal consultations could be monitored and Departmental policy communicated more effectively.

**Perceived Strengths and Weaknesses of the Process**

First Nation representatives noted that having an experience with an AFA prior to entering into an FTA was beneficial. These representatives pointed to flexibility and ability to adjust the agreement to meet individual needs as process strengths. They also welcomed the equal trade of information between DIAND and First Nations, which they felt would help to clarify how the funding base is established and how the adjustment will function. They felt the process provided an incentive to get organized and consult with other First Nations about the FTA. Process weaknesses identified by some First Nations included the lack of authority of Departmental negotiators to make decisions at the table and consequent delays in negotiations; inaccuracies in Departmental data being used to set funding levels; lack of sufficient information; and the inability to reconcile First Nation data with that used by the Department. Some later entrants viewed negotiations as rigid and noted the need to include First Nations as equal participants in the process. Later entrants also felt that the process was moving too quickly, while early entrants felt that it was moving too slowly. Some noted that there was a need to further define the process at the outset. Lack of consistency between First Nations in treatment and type of funding arrangements being offered was also identified as a weakness.

Departmental officials noted strengths of the process as being interactive, involving the regions and promoting innovation. They saw its weakness as their limited participation in construction and implementation of the FTA: restricting input to commenting on drafts was viewed as insufficient to address their concerns regarding draft agreements or the national generic model. Generally, these respondents felt that the importance of the FTA initiative and its future impacts on other funding instruments warranted more formal and universal participation in the process.

## SECTION 6 - ACCOUNTABILITY

This section presents the findings of the FTA evaluation as they relate to the implementation of the Departmental and First Nation local accountability frameworks. To put these findings in context, the section begins with a review of the findings of earlier reports, audits, and evaluations on this topic. Section 9 of this report deals more specifically with the impacts of the experiences on accountability.

### Background

In 1983, the Report of the Special Parliamentary Committee on Indian Self-Government (Penner Report) recommended removing centralized controls over public funds once an adequate system of accountability was recognized at the community level. A dilemma faced by DIAND in this process has been how to satisfy ministerial accountability to Parliament while strengthening local accountability for expanded local decision making that respects diverse traditions among First Nations.

The Treasury Board Submission, 1986 which contains the departmental accountability requirements for AFA is the authority upon which FTA is based. This submission, and the associated accountability requirements, is fully described in the Comparative Analysis, Appendix 5. It contains the program terms and conditions and the legislative and regulatory sources of authorities for all program areas: social assistance (Canada Assistance Program and Treasury Board Minutes, 1964), education, membership, and lands, (Indian Act).

Both the Auditor General of Canada and the Parliamentary Committee on Public Accounts have been critical of DIAND's accountability regime. In his 1991 report, the Auditor General raised questions concerning the adequacy of controls and reporting requirements required of Aboriginal organizations within Departmental funding arrangements. Specifically, the report stated that DIAND lacks an accountability framework and that funds administered by First Nations and Tribal Councils need a proper accountability framework. These concerns quickly took on a broader scope. In 1992, the Auditor General noted the lack of appeal mechanisms in tribal or band governments. In raising these questions, the Auditor General also placed the relevance and effectiveness of the current accountability regime beyond the classic paradigm of simply accounting for expenditures to accounting for the quality of services and the legitimacy of decisions made within the framework of the administrative process. Although the Auditor General acknowledged the principle that bands should be able to modify programs funded by the federal government, subject to the minimum terms and conditions, he raised the point that "under the legislation currently in place, the Department still retains ultimate accountability for the way in which these funds are spent and the results they produce." In September 1996, the Auditor General published a study on First Nation local accountability.

Internal evaluations undertaken by the Departmental Audit and Evaluation Branch (DAEB) also noted these issues. The *Evaluation on the Long-Term Impacts of AFA* (1993) recommended that an accountability framework be put in place and that Ministerial accountability be clarified. Unlike the Penner Report, however, until a different legislative regime is introduced, the evaluation observed that as funding arrangements allow more flexibility and control to First Nation governments, they should have more, not fewer, accountability requirements.

In September 1993, an interdepartmental committee consisting of deputy ministers from four participating departments (DIAND, the Canadian International Development Agency, Health and Welfare, and Canada Employment and Immigration) and senior officials of Privy Council Office and Treasury Board proposed six principles to improve accountability to Parliament for the delivery of services using third parties.[1] These principles are reflected in those proposed by the Auditor General (1994) as essential components of accountability involving delegation, agreement on results, empowerment, accounting for results, and approval of results.

A report to the DIAND Steering Committee on Accountability prepared by DAEB recognized that the development of an effective accountability framework between the federal government and First Nation governments depends, in part, on the acceptance of a dynamic accountability paradigm. The paper placed the issue of accountability in the context of the federal government's desire to establish a new relationship with First Nations, recognizing that this shift will heighten political recognition of accountability and raise both public and First Nation expectations. The report also outlined the general framework for accountability recognized by the electorate in Canada. This framework involved elements such as making reasons for decisions visible, avoiding conflict of interest, providing accurate and meaningful disclosure of financial and other information, establishing formal mechanisms for redress, ensuring that the health and safety of individuals is protected, and ensuring that services and goods are delivered in a cost-efficient and cost-effective manner. As a step toward this framework, the report suggested encouraging First Nation local financial management/accountability through by-laws, promoting transparency through publishing general funding allocations by First Nations in Part III of the Estimates, and promoting self-evaluation.

Along with these developments has been increasing pressure at the political level in response to the current fiscal climate. The public is demanding that funds be well managed and achieve results. Aboriginal programs, the only programs not cut in the 1995/96 budget, are under much scrutiny.

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[1] *Study on Accountability for Grant, Contribution & Other Transfer Payments Delivered Through Third Parties*, September 1993.

While the reports mentioned above focused on maintaining or enhancing First Nation local accountability, there have also been observations on the need to continue to strengthen internal Departmental accountability. For example, the *Self-Assessment of the Funding Management Process* (DAEB, 1995) highlighted several accountability issues pertaining to the management of funding arrangements and recommended that the Department institute one set of accountability requirements across all funding arrangements.

**Departmental Accountability**

- **A CLEAR SHIFT IN ACCOUNTABILITY OBJECTIVES HAS OCCURRED BETWEEN THE INITIAL PILOTS AND THE CURRENT ONES.**
- **CONSENSUS IS EMERGING ON THE NEED FOR ACCOUNTABILITY REQUIREMENTS REFLECTING THE INCREASED AUTHORITY AND FLEXIBILITY OF THE AGREEMENTS. REPORTING REQUIREMENTS BEYOND THOSE CONTAINED IN THE AFA REPORTING GUIDE ARE VIEWED AS ESSENTIAL.**
- **THE DEPARTMENTAL ACCOUNTABILITY FRAMEWORK IS BEING DEVELOPED, AND RELEVANT ELEMENTS ARE BEING INTRODUCED INTO THE MORE RECENT FTA EXPERIENCES.**

**Accountability Objectives of the Experiences to Date with FTAs**

DIAND officials both in the regions and at headquarters noted that there has been a shift in the accountability objectives since the initial implementation of the pilot projects. This shift reflects the developments outlined above.

**Chart 10**

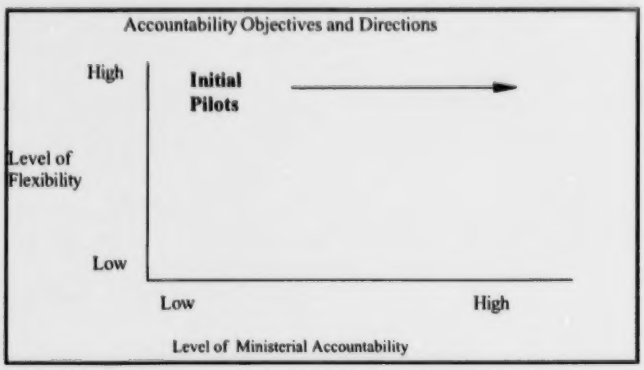


Chart 10 presents the shift in accountability objectives. The early objectives placed less reliance upon centralized controls and more on local First Nation controls. Such an approach was viewed as consistent with the AFA philosophy of moving toward self-government. However, as the FTA pilot projects progressed, the accountability objectives began to reflect the need for both increased local and centralized accountability mechanisms in order to respond to the increased flexibility the agreements give First Nations. Within this view, the early AFA objective of a shift in accountability from the Department to First Nation Councils and their constituents has been changed to a shared accountability: First Nations to the Department and First Nation Councils to their constituents.

Implementation of the FTA is intended to enable the Minister to say that a strong system of accountability exists across all First Nations for the management of public funds and services, which reflects the key standards applied by all levels of government in Canada. This model should permit the Minister credibly to assure that there is sound stewardship of public funds, and that results are being achieved in a manner sensitive to the management strength of individual First Nations, variations in community traditions, and declining resources available for administrative purposes. The model strives to emphasize able and accountable local government; promote community development; strengthen local checks and balances (transparency, disclosure, redress); and clarify accountability relationships.

**Implementation Status of Departmental Accountability Framework**

This section examines the implementation of the accountability framework within the FTA pilots in conjunction with other associated activities being undertaken by DIAND. The comparative analysis undertaken as part of the evaluation, which is published under separate cover, charts the implementation of each of the elements of the Departmental framework. This analysis suggests that although the framework is still under development, a number of its elements are already in place. The innovations found in some of the later pilots include:

> ***Delegation:*** Agreements include extended indemnification clauses involving liability and property damage, insurance protection, and extended remedial action clauses.
>
> ***Performance Contract:*** Reporting requirements are outlined within agreements, along with requirements for how DIAND policies can be modified, codification of local accountability practices, and associated service delivery responsibilities of each party.
>
> ***Authority Delegation/Empowerment:*** The entry management report and its resulting requirements are built into agreements, and the relationship of parties and associated roles and responsibilities are outlined; constraints on use of funds are clearly articulated such as policy on the use of surpluses and deficits; and the application of accountability principles (transparency, employee policies, loans, conflict of interest, redress, disclosure) is specified.
>
> ***Reporting for Results:*** An operations plan is established requiring the First Nation to report the planned allocation of funds transferred under the agreement and identifying priorities, goals and other elements such as debt financing over the five-year term; this is to be submitted to constituents and the Department with the further requirement that any changes to the plan also be reported.

***Acceptance of Results/Independent Evaluation:*** Agreements include a requirement to participate in compliance and/or data quality reviews allowing the Department access to all records and information needed to test data quality and compliance with minimum program terms and conditions; the Saskatchewan model includes a formal dispute resolution mechanism between the Department and the recipient.

The implementation status of the accountability framework used in the pilot projects should be viewed in the context of other corresponding initiatives being undertaken by the Department. Some of these initiatives, and their status, are outlined below:

- ***Reporting:*** A review of DIAND data requirements aimed at standardizing requirements across all funding arrangements, consistent with the expanded decision-making authority First Nations are to assume, is under way.

- ***Restructuring of First Nation Financial Reporting:*** Work is proceeding with Statistics Canada to bring First Nations into the System of National Accounts in order to generate comparative statistics with other levels of government. Since First Nations have authority to set local program objectives and redesign programs, it is misleading to measure the achievement of value for money at the national level along standard program lines. This is because standard program budgets set out in Part III of the Main Estimates are only proxies for the actual expenditures of funds by First Nations.

- ***Data Reviews:*** Compliance reviews are to be applied to ensure that First Nations are receiving their fair share under the existing funding formula.

- ***National Generic FTA Model:*** The generic model is under development and should be ready for implementation in the 1996/97 fiscal year.

**Reporting Requirements of the Experiences to Date**

The specific reporting requirements contained in the FTA experiences to date are outlined in the comparative analysis published as part of the supporting appendices to this evaluation. In most cases, the initial pilot projects used AFA reporting requirements. These involved submitting an annual statistical return along with the audited financial statements.[2] Some First Nations participating in an FTA pilot, however, were asked to provide additional ad hoc reporting to the Department, which in effect made their reporting requirements similar to those under CFAs. As outlined above, the more recent pilots contain additional reporting requirements such as a management development plan, budget, economic development plan, and maintenance plan. However, some agreements require these to be submitted to the Department whereas other agreements simply require the First Nation to make them available upon request by the Department. The agreements also contain other requestable information such as liability insurance, employee policy, and conflict of interest guidelines.

Chart 11 presents the views on reporting of First Nations with an FTA and of those in the process of entering one. Overall, First Nation representatives felt that the complexity and amount of reporting was no different from prior agreements; however, they generally felt that the frequency of reporting had either decreased or stayed the same. Increasing the amount of reporting was viewed as contrary to the intent of the agreement. First Nation representatives argued that reporting should be focused on minimum program standards and program audits and spot checks of social assistance files. Some First Nations wanted more clarification of the rationale for the required reporting and its use by the Department, particularly when it is not required for resourcing purposes. They questioned why one common annual report could not be produced for both the community and the Department. They also wanted to know what the eventual reporting requirements will be and whether they will remain constant for the term of the agreement.

Most DIAND regional staff consider the reporting requirements of the pilot FTAs to be similar to AFAs in quantity, quality, and frequency.

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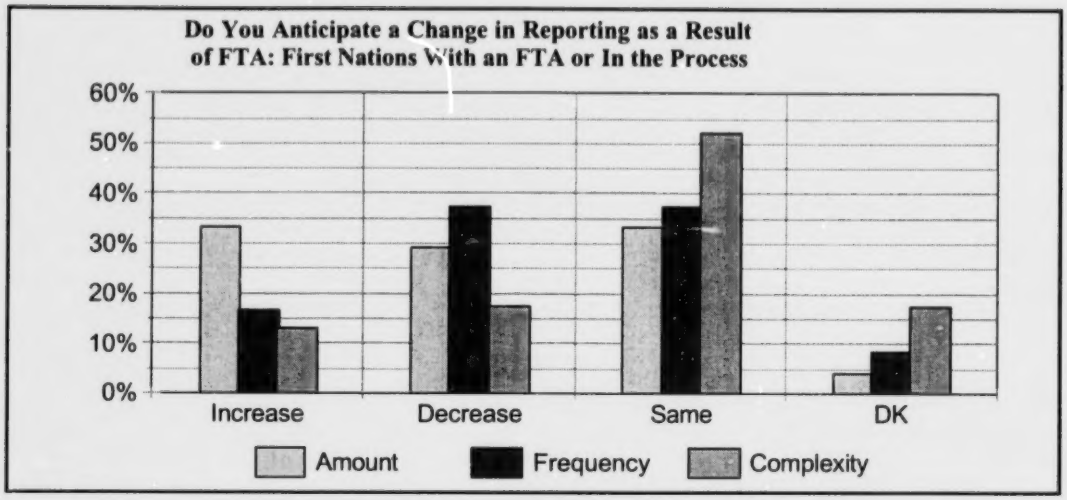
[2] The statistical return includes data on social development, education, economic development, management and community services, pension plans, capital infrastructure, education facilities, housing, capital asset acquisitions, capital facilities operations and maintenance, reserves and trusts, and membership.

**Chart 11**




**Sufficiency of Reporting**

Interviews with regional and headquarters staff revealed mixed views on whether the AFA annual audited financial statement and information return used in the initial pilots was sufficient to satisfy the basic requirements for ministerial accountability.

Most respondents believed that the basic requirement for an audited annual financial statement and statistical return should be sufficient to satisfy ministerial accountability. However, based upon their experience with AFAs, some within the regions and headquarters were sceptical about the reporting standards used in the FTA experiences to date. In many cases, the reporting received from AFA First Nations has been delayed or supporting annexes have been incomplete. Most importantly, it was felt that applying the same standards of reporting to FTA First Nations is inappropriate given the higher level of responsibility they assume. A number of headquarters officials noted that the experiences to date do not provide adequate information for headquarters to undertake its policy and resource justification functions and satisfy reporting to central agencies. They viewed the lack of standardized information collection across First Nations as limiting the ability to generalize performance and output measures for all First Nations. These respondents thought the early pilots needed much stronger reporting than that used for AFAs and needed to guarantee a greater level of ministerial accountability, involving clear enforcement of the terms and conditions and the willingness to use remedial action if necessary. They felt that too little information is solicited and that it is possible to increase reporting requirements without endangering the government-to-government relationship between the Department and First Nations.

Regarding the data requested, the interviews with staff showed that reporting is viewed as too reliant on financial data and as tending to ignore indicators of program quality. Audit and financial statements are viewed as only showing how money was spent, not how well it was spent or how the community benefited from its expenditures. Respondents identified a need to clarify reporting requirements in the terms and conditions of the agreement itself, a view supported by the case studies. These showed, for example, that lack of reporting requirements contained in the terms and conditions often led the Department to rely upon the overriding clause of data requirements in order to request supplementary data. Another concern in this regard is the quality of data received. Because of concerns about relevance and reliability, several respondents indicated that there was a tendency to take data requirements less seriously than they should be.

Nevertheless, the majority of respondents in the regions and at headquarters noted some positive developments. First, the newer agreements have stated more specifically the reporting requirements and the associated reporting dates. Second, information requirements are being reviewed with a view to reducing them to a common format for all funding arrangements.

With respect to accountability, some regional officials noted frustration with the mixed signals regarding accountability and its measurement and application. Respondents felt this issue had not been a priority during the development and implementation of the initial pilots. They felt the FTA was primarily responding to the desire of First Nations for more autonomy because the only requirements for First Nations were the minimum standards. This resulted in less Departmental control. However, the later pilots showed an increased emphasis on accountability and a tendency for more control by DIAND. Overall, these respondents viewed the strengthening of reporting requirements as regressive, and the newer versions of the FTA as compromising its original philosophy. Given these mixed signals early on in the process, many regions held back from implementing pilot projects until the general direction and philosophy of the agreement became more apparent.

**Role of Reporting**

Department officials noted that with the introduction of the FTA, the role of reporting will shift from making service delivery decisions to monitoring. This was felt to present several challenges.

First, while staff generally believed this shift would provide an opportunity to reduce current reporting requirements by eliminating elements formerly required for resourcing purposes, they felt that the long-term reporting requirements should be clarified. According to these officials, any number of unknown factors could create a need for resourcing data. For example, it is unclear how the funding agreements will be renegotiated after five years and whether this will require redefining base budgets, which in turn will require resourcing data. If First Nations cease to collect certain resourcing elements, such a redefinition could be challenging.

Second, since funding formulas are based upon population and inflation indices within reference levels rather than being output-based, reporting aimed at fulfilling accountability requirements should be sufficient to enable the Department to monitor the quality and quantity of services.

A related concern voiced by some interviewees is the implications of a shift in financial reporting from a program to a global basis. They see this as presenting a potential challenge to DIAND's reporting of financial information, since the Department is still resourced by Parliament on a program basis. It is as an accountability concern because, under the new funding arrangements, the Minister will still need to be able to report to Parliament on a program level as currently required. Information on how recipients have disposed of DIAND funds will still need to be made available at a program level within the audits. Moreover, many officials stated that the Department needs to know what First Nations are doing with the funds prior to obtaining the audit, since it could be some 18 months after the start of a problem before DIAND receives any information on the disposition of the funds. Any remedial action might then prove to be untimely and ineffective.

The introduction of the operations plan is intended to address the need for appropriate, timely, and accurate financial and program information at the First Nation level. However, since they have only been introduced in the 1996/97 fiscal year, it is too early to assess them. Nevertheless, the challenge will be to have timely submission of the operations plans and audits, and to obtain them in a standardized format that enables aggregation at the regional and national levels. The introduction of reporting under the auspices of the National Systems of Accounts is meant to address this standardization issue.

**First Nation Use of Requested Reports**

First Nations participating in the FTA pilots questioned whether some of the data required by the Department were relevant to their own management purposes. Only 55% of First Nations participating in the FTA pilots stated that they use the information required for program reporting for their own management reports. Some First Nation officials not only questioned the quality of their reports to DIAND but also challenged the whole notion of reporting to the Department, since they are unsure whether the Department actually reviews and uses the reports.

Some officials in the regions noted that First Nations should be more involved in determining what data are important. Such participation could increase First Nations' use of the data and, potentially, their compliance with reporting requirements, since they would be aware of their rationale and importance. This involvement would help address the concerns of some officials that First Nation compliance with reporting requirements might diminish with the shift in the role of reporting from the making resourcing decisions to accountability.

**Monitoring of Terms and Conditions**

The interviews with regional officials and findings from the case studies suggest that the monitoring of the terms and conditions of the FTA pilots, while at an early stage, is generally being implemented as intended. Where an audit reporting deadline was not met, funding was withheld until the report was received.

However, some officials stated that the Department's role as contributor to First Nation costs required more extensive monitoring of program terms and conditions, and that enforcement of the minimum program terms and conditions is limited because legislative requirements are not defined within the agreements. Confusion exists, for example, over the application of provincial allocation and administration methods for social assistance, and could extend to other programs with provincial implications such as child welfare. This issue is being dealt with by the Department and is discussed in more depth in Section 7 of this report.

Several officials questioned DIAND's role with respect to First Nation local accountability. It was felt that enforcing the local accountability provisions in the agreements could place the Department in an uncertain position and that DIAND's role should be clearly specified. According to Departmental officials, strengthening local accountability requirements within the agreements should help; however, there are limits to how far the Department can go in monitoring adherence to these requirements. The Saskatchewan model illustrates one way to clarify DIAND's role. For example, disclosure rules require that if specified documents are not provided to First Nation members on request, Canada may provide such information to the member at the First Nation's expense.

**Data Reviews**

The majority of officials at the regional level questioned the continued relevance of data/compliance reviews for FTAs and how such reviews would function given the nature of block funding. However, some respondents agreed that the Department needs to examine compliance at the First Nation level, particularly compliance with minimum standard program terms and conditions and the application of national standards. These respondents felt that such an examination would aid in assessing the effectiveness of current data reporting processes and would provide a comfort level to the Department and First Nations with respect to the significant change that FTA presents. Respondents agreed that it is difficult to assess the degree of First Nation compliance nationally due to the differing procedures employed by the regions.

Respondents also suggested that communicating program requirements in a more definitive form would assist in undertaking the reviews. Increased standardization of program requirements and evaluation methodology, and the communication of these to First Nations prior to compliance reviews, were seen as ways to achieve greater compliance at the First Nation level. These respondents felt that standardization could enable the Department to monitor programs more effectively and provide clear guidelines for evaluators and First Nations.

## First Nation Local Accountability

- **A NUMBER OF ACCOUNTABILITY PRACTICES AND MECHANISMS WERE IDENTIFIED AT THE FIRST NATION LOCAL LEVEL.**
- **THE IMPLEMENTATION STATUS OF LOCAL ACCOUNTABILITY FRAMEWORKS IS STILL IN THE FORMATIVE STAGES, WITH SIGNIFICANT DEVELOPMENTS OCCURRING IN THE NEWER PILOTS.**
- **OVERALL, THE ACCOUNTABILITY PRACTICES OF PARTICIPATING AND NON-PARTICIPATING FIRST NATIONS DO NOT DIFFER APPRECIABLY.**

This section examines First Nation local accountability. It looks at the implementation status of local accountability frameworks, the range of practices being employed by First Nations, and compares the accountability practices of First Nations participating in FTA pilots with those of non-participants. Specific impacts of the FTA experiences to date are dealt with in Section 9 of this report.

### Local Accountability Frameworks — Implementation Status

At the time of the evaluation, significant developments in local accountability were found in the later pilots and model agreements under development. While most earlier agreements make reference to the principles of transparency, disclosure, and redress, the later agreements and models provide definitions of these principles and include time frames for the codification of local accountability practices.

Notably, early pilot agreements required First Nation Councils to report to their members about what had occurred over the previous year. Some of the newer agreements are more proactive and community-inclusive, requiring Councils to report on projected activities through the operations plan, management plan, and other reporting requirements. Developments in the later agreements include:

- the principle that local accountability be comparable to that of other levels of government in Canada;
- codification of accountability practices: by-law and/or conflict of interest guidelines required (for elected officials and employees in the areas of financial policy, personal benefit, and disclosure);
- identification of compensation/benefits of First Nation officials (salaries and per diems);
- extended disclosure, making reference to specific documents, such as the operations plan, to band members;
- redress mechanisms extending appeal processes across all programs, with formally adopted policies that are communicated to First Nation members; and
- adherence to the local accountability provisions in the agreement terms and conditions.

**Range of Accountability Practices**

The evaluation found a range of First Nation local accountability practices in the areas of transparency, disclosure, and redress. Some of the practices within each of these principles are described below.

Transparency

The principal accountability mechanisms used by First Nations are outlined in Table 4. These were identified through telephone interviews with First Nations. Of these mechanisms, general meetings, audits, and Council meetings were viewed as the primary means by which Councils are accountable to their membership. Committees were noted as another important mechanism, and their role was mentioned on many occasions. They are used to provide guidance on program matters and special topics and generally consist of representatives of Council, staff, and the general membership. The evaluation found no appreciable differences in the type of accountability practices reported by FTA and non-FTA First Nations.

**Table 4: Primary Accountability Practices Utilized by First Nations**

| | |
|---|---|
| Audit | 71% |
| Council Meetings | 71% |
| Band Community Committees | 67% |
| General Meetings | 64% |
| Public Forum Meetings | 31% |
| Annual Report | 33% |
| Referenda | 29% |
| Council Meeting Minutes | 25% |
| Newsletters/Media | 25% |
| Financial/Budget Statements | 11% |
| Council Contact with Membership | 7% |
| Elder Committees | 4% |

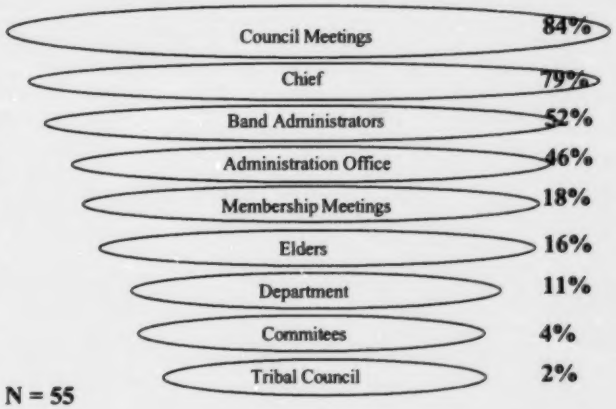
N = 55

**Disclosure**

The purpose of disclosure is to provide citizens with information in a manner that clearly explains plans and actions. First Nation and Tribal Council officials stated that they report the results of programs to their constituents, primarily through oral communications at general meetings and special assemblies. Other methods for conveying results include the annual audit (it is used much more than an annual report), newsletters, and status reports.

**Chart 12**

**Who Community Members Go To When They Have A Question about Chief & Council Decisions**




N = 55

Some First Nations noted that they are trying to make their information more accessible to members by using more graphical presentations.

All First Nation/Tribal Council officials reported that they make their audits accessible to constituents. Of the First Nations/Tribal Councils interviewed, 67% make their audits available to constituents at the administration office; whereas 33% distribute the audit to constituents through mail outs and at general meetings. Reasons cited for not actively distributing the audit to all members were that it was unnecessary (posting of the audit in the administration office was sufficient) and expensive. However, some respondents questioned whether handing out copies of audits is a wise practice. According to them, audits are difficult for the average person to understand and contain sensitive salary and service information that some respondents view as confidential.

Approximately 70% of the First Nations interviewed reported undertaking program evaluations. However, a variety of views were expressed on the nature of evaluation. Some respondents view it as a consultative process, while others view it as an annual activity to be completed by outside consultants. Most First Nations reported conducting informal evaluations, such as consultative policy reviews with staff at the end of the year. Others undertake more in-depth evaluations, particularly in the area of education, usually involving outside consultants. Other in-depth evaluations focused on social assistance case files, economic development, and housing policy. Respondents that did not conduct evaluations are interested in doing so in the future, but believe that they require more expertise in this area.

Redress

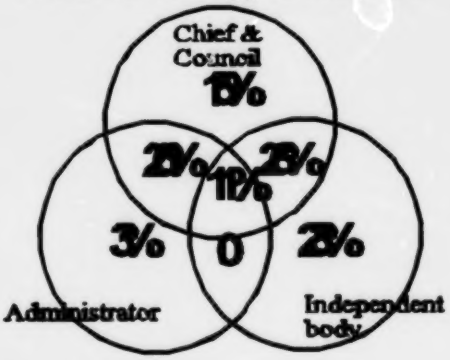
Approximately 80% of First Nations interviewed have some form of formal appeal mechanism. There was no appreciable difference between those First Nations participating in an FTA experience and those with an AFA. However, a significant number of First Nations with a CFA did not have formal appeal mechanisms.

Chart 13 outlines the administrative appeal processes being used by First Nations. Most interviewees (23%) use an independent body consisting of either an ad hoc committee, program personnel, constituents meeting, and, in some cases, an annual general meeting. In 26% of the cases, appeals would involve an independent body and Chief and Council, whereas in 11% of the cases, an appeal would involve an independent body, Chief and Council, and the First Nation administrator.

Most First Nations with an FTA stated that they are satisfied with their appeal systems. Some respondents stated that the appeal process is not often used since most issues are resolved before it is set in motion. It was noted that in some instances the membership needs to become more familiar with appeal processes. This is difficult since processes can change from Council to Council. One First Nation noted that its process was still being developed. It would like to amalgamate its different program appeal mechanisms into a common process and create a justice department with a standing appeals officer. While First Nation members may not like decisions resulting from appeal processes, they are generally satisfied with the process itself. No First Nation with an FTA saw a role for DIAND in the appeal process, and one First Nation in the process of entering an FTA viewed DIAND as being a court of last appeal since it is separate from the First Nation.

**Chart 13**

**Administrative Appeal Processes**




N = 55

Chart 14 shows that 66% of all First Nations interviewed either have or have initiated conflict of interest guidelines. First Nations with an FTA, in the process of entering one, or those with an AFA had initiated more conflict of interest guidelines than those with a CFA.

**Chart 14**

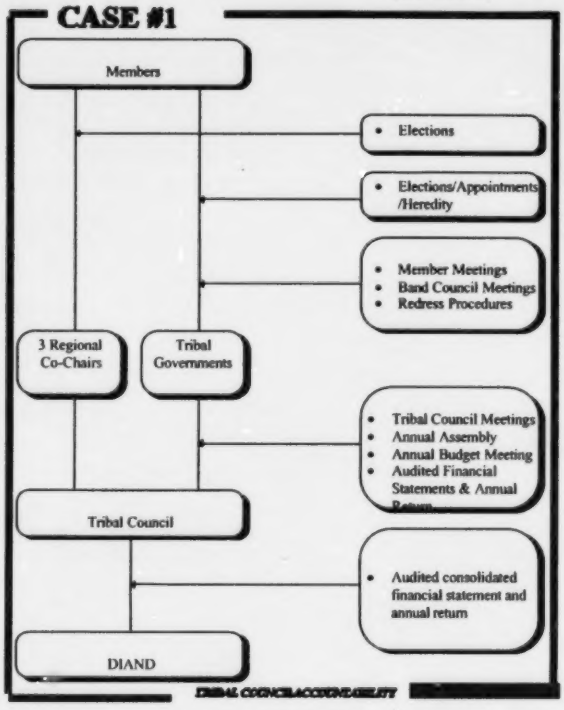
**Conflict of Interest Guidelines Initiated or In Place**

N = 55

More than half the guidelines are set in policy manuals and define conflict of interest in employment, hiring, and decision making. It was mentioned that such guidelines present a particular challenge to smaller First Nations, due to smaller pools of suitably qualified applicants for jobs. Some First Nations interviewed (12%) had accountability by-laws in place. For example, one First Nation had adopted provincial conflict of interest statutes by using Section 88 of the Indian Act. Another respondent is in the process of drafting an accountability by-law to meet the conditions of its FTA. Accountability by-laws generally cover three areas: conduct, including financial gain of employees and Chief and Council; hiring practices regarding family and spouses of Chief, Council, and administration; and community property.

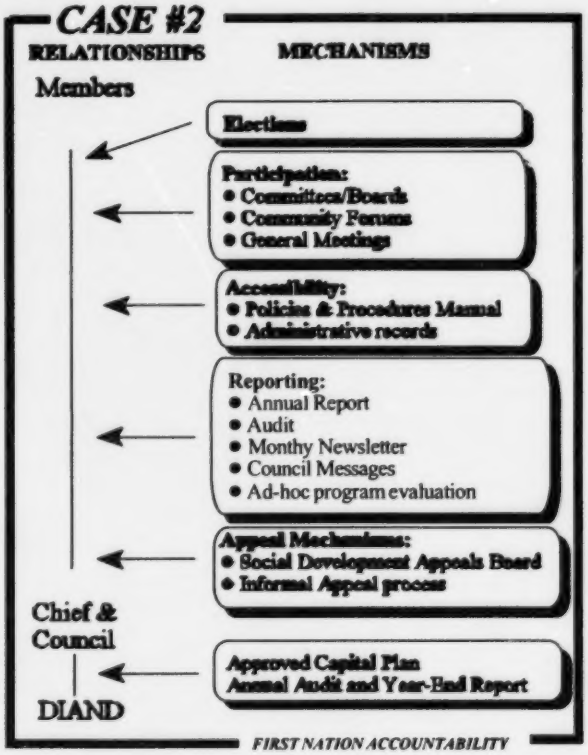
**Case Studies**

Chart 15 presents an overview of the accountability structure of the Tribal Council participating in a case study as part of the evaluation. The Tribal Council is accountable for the use of public funds to DIAND and is accountable for leadership, management, and service delivery to the Councils of the member tribes through regional co-chairs and members at large. The Council of each member First Nation is accountable to its members for leadership, management, and service delivery and to the Tribal Council for the use of public funds. With the introduction of their funding agreement, there is no direct accountability relationship between the individual member tribes and DIAND, since this is the function of the Tribal Council. Representatives of the Tribal Council and member First Nations view the accountability relationships as functioning well. All First Nations hold community meetings and annual general meetings.



In the larger First Nations, the traditional clan system was viewed as an accountability instrument analogous to an interest group. Appeals of decisions about services were typically informal and made directly to the band administrator or Council. A route of appeal to the Tribal Council served as an unofficial double check. None of the First Nations have by-laws that deal specifically with accountability, but several of them have a policy and procedures manual or an official code of conduct for the Chief and Council. All member First Nations have an annual audit and report. The level of community involvement in First Nation budget development varies. First Nations that use the flexibility of their agreements have more community involvement. The budget development process at the Tribal Council level is seen to be very participatory, while improved communications within and between First Nations is viewed by members as an area requiring improvement.

Chart 16 presents the accountability structure of a First Nation that took part in a case study as part of the evaluation. The basic accountability structures are between the First Nation Council and its constituents for service delivery and quality, and between DIAND and the Council for use of funds. Post-secondary education is delivered to the First Nation by the Tribal Council. In this relationship, the redress mechanism is at the Tribal Council level. Among the mechanisms used by the First Nation are a semi-annual report, audit listing of staff and salaries, program newsletters, and periodic messages from the Chief and Council to the community. Several community meetings are held each year (with an average of 50 persons attending) and family groups are used to review specific questions such as Treaty Land Entitlements. In terms of appeal mechanisms, informal requests such as housing repairs go to the Chief, Council, or sometimes the administrator. Formal appeals for social development go to the Social Development Appeals Board. The submission of the audit and the budget to the General Assembly was viewed as an established practice requiring ongoing focus.



## SECTION 7 - MANAGEMENT FLEXIBILITY AND RESOURCING

- **COMPARED WITH PREVIOUS FUNDING ARRANGEMENTS, THE FTAS EXPERIENCED TO DATE HAVE SUBSTANTIALLY INCREASED THE MANAGEMENT AND FINANCIAL FLEXIBILITY AFFORDED TO FIRST NATIONS; HOWEVER, SOME BARRIERS REMAIN.**
- **PARTICIPATING FIRST NATIONS ARE MAKING USE OF THIS FLEXIBILITY, ALTHOUGH IMPLEMENTATION OF THIS FLEXIBILITY IS LONG TERM.**

This section examines the management and funding flexibility of the FTAs experienced to date, and the use of this flexibility by First Nations. Specific impacts encountered as a result of these authorities are presented in Section 9 of this report.

### Program Management Flexibility

An important benefit of the FTA pilots is that First Nations can develop their own policies and budgeting subject to minimum terms and conditions. This requires First Nations to define community objectives and plans, establish their own service delivery policies, and allocate funds for core services, in accordance with their priorities and subject to the terms and conditions of the agreement. Non-core services are delivered in accordance with specific terms and conditions.

#### Minimum Program Terms and Conditions

The comparative analysis in Appendix 5 presents an overview of the minimum program terms and conditions contained in the FTA pilots, along with their corresponding authorities. The early pilots contain largely the same program terms and conditions; however, some variation was found between the earlier and later pilots. The most recent pilot included updated environmental terms and conditions to reflect the introduction of the Canadian Environmental Assessment Act; expanded terms and conditions for the capital program, such as the requirement for tendering projects that exceed $500,000; the extension of appeals mechanisms to all programs; and reference to the Department's new housing program.

#### Use of Program Flexibility

Participating First Nations viewed the ability to modify programs as a major reason for entering into the agreement. The case studies and telephone interviews found that use of this program flexibility involves a different mind set among First Nations and requires long-term implementation. Previous experience with an AFA was seen as a major asset in this regard.

Table 5 presents an overview of some of the programming either being considered or initiated by participating First Nations. Economic development programming is one area where the flexibility of the FTA is being used, with a high priority placed upon investments and employment. The case study of the Tribal Council revealed how intersectoral programs or programs that cross over established program areas can now be considered. Examples include community development workers; residential school support programs; fisheries programs involving traditional economic development funded through DIAND; and programs funded through the Department of Fisheries and Oceans.

**Table 5: Programming Initiated or Being Considered**

| Educational Programming | Community Social and Economic Development Programming |
|---|---|
| ✔ Needs-based schedule for post-secondary education allocations | ✔ Linking CMHC and social assistance housing funding into a single housing budget |
| ✔ Increased student loans and incentives | ✔ Community development workers |
| ✔ Specialized education programs for new learners | ✔ Community Initiatives Fund for community development projects |
| ✔ Residential school support program | ✔ Flexibility to implement different projects of priority to community such as recreation, investment, and housing |
| ✔ Teaching assistants | ✔ Linking funding from different departments to create fisheries program |
| ✔ Education and social assistance programs focusing on unemployed youth and specific groups such as single mothers | |

The on-site visit with the First Nation that formerly had a CFA found that separate budgets meant that many programs acted independently of one another. The FTA enabled common goals to be established and co-operative efficiencies to be explored. Although this First Nation had so far made few alterations to programs, it was considering diverting education funding to support older students (since under the old regime it was difficult to fund mature students) and was exploring ways to combine CMHC and social assistance housing funding into a single housing budget.

First Nations in the process of entering an FTA were interested in adapting programs in education and social assistance and targeting them to specific groups such as youth and single mothers. Other changes that have either been made or are being planned include changing the allocations for post-secondary education funding to a needs-based schedule, increased student loans and incentives, specialized education programs for new learners to upgrade skills, and rebudgeting to provide school teachers with teaching assistants.

**Limits to the Use of Program Flexibility**

The evaluation identified several limits to the use of program flexibility. While First Nations participating in an FTA experience identified the flexibility to apply savings from one program to another, or to design a new program if funding permits, as one of the main advantages of FTAs, they saw the ability to use this flexibility as dependent upon the level of resources available. First Nations entering an FTA questioned whether they would have sufficient resources to utilize this flexibility fully. Some First Nations felt they were limited by the requirement that capital funding can only be used for capital purposes and by the way cash flow is allotted.

Some First Nations respondents also stated that an FTA would be more effective if jurisdictional crossovers were reduced. Areas such as elder care, policing, and education involve both federal and provincial governments in setting guidelines for their operation, which can make program adaptations difficult.

Some respondents also noted the need to clarify the extent to which FTA authorities enable them to alter program policies and delivery systems where there is clear provincial jurisdiction such as in social assistance. A number of First Nations are considering changes to their social assistance benefit schedule and rates but are unsure whether the Department or the community would allow such a departure from the norm. First Nations located close to non-Aboriginal communities are generally tied by market forces to provincial benefit schedules, since variation from provincial norms may produce immigration or emigration.

The need for jurisdictional clarifications was also noted by some Departmental officials. A main concern here is the extent to which terms and conditions should be consistent with provincial legislation in areas where there is clear provincial authority. Officials identified a need for consistent communications from headquarters to the regional offices on this matter. Related concerns are that funding arrangements such as FTA may be interpreted as being outside provincial regulations and that the need for consistency between band policies and provincial policies may not be sufficiently clear. *Chart 17 presents some best practices among regional DIAND offices and First Nations.*

According to some regional officials and First Nation representatives, continued policy development by the Department is another potential barrier to the use of programming flexibility by First Nations. Since the introduction of AFAs, headquarters is viewed as not always respecting the philosophy of placing programming authority in the hands of the First Nations. This is because it continues to create programs requiring targeted funding, such as the national youth strategy or the national policy on housing.

### *Chart 17: Best Practices In Clarifying FTA Program Authorities*

The Comparative Analysis of the pilots and First Nation case studies reveal some *best practices* in clarifying FTA policy authorities.

***Regional FTA Models:*** In some of the pilot agreements, policies outlining how the minimum requirements will be met are listed and identified as the First Nation's policy or DIAND policy. Where the council has not yet developed its policies, the listed policies in the schedule shall apply. The FTA management assessment process is intended to review the policies of the council to ensure they meet or exceed the minimum program requirements. DIAND policies are subject to change by the First Nation council as long as the Minister receives notification of the amendment. For example, in one of the case studies, the First Nation had to either table its own policies with DIAND or it had to adopt DIAND policies. The *Quebec agreements* require any changes in program policy to be included in the agreement, dated and cross-referenced with the appropriate program terms and conditions. The result of this practice is a list of the program policies in operation, the origin of the policies and the date they are introduced. Finally, in the *B.C. model* there is the inclusion of a schedule of all pertinent federal and provincial policies and/or legislation pertaining to the established program areas.

***First Nations:*** The case studies show that the extent of First Nation constituents involvement in the policy process is dependent upon the nature and potential implications of the policy. If the implications of the policy are significant, whether in the amount of money spent or in the development of new programs, the community is consulted to ratify the actions being taken. An example of this community-driven approval process occurred when a community wanted to amend the school year from 10 months to a structure with ten-week terms followed by a two-week break. The community was consulted and a referendum vote was held.

## Funding Flexibility

### Description of the Resourcing Regime

The structure of the funding in the FTA pilots differs between agreements, but it is usually broken into three parts: core, non-core, and the capital fund. Later FTA agreements, such as those prepared in British Columbia, Saskatchewan, and Quebec, are delivered in two funds: core and non-core. Each of these funds is described below:

- The **Core Fund** consolidates the funding for the recurring DIAND programs. The fund is established at the outset of the five-year agreement and is usually adjusted according to an adjustment formula including population and an inflation index within a prescribed reference level.
- The **Non-Core Fund** is used for one-time initiatives and sun-set programs or for emergency support. This fund is developed annually.
- The **Capital Fund** contains funding for capital projects, and is used as a mechanism to keep capital expenditures separate from the core funds.

The evaluation found the pilot agreements contained variations in the terms and conditions governing the transferability of funding, including the level at which these authorities are specified. Generally, funding flexibility is enabled between programs included within the core fund, with capital funding to be used only for capital purposes. Non-core, targeted funding is to be directed to the intended project, unless otherwise agreed by the parties involved. Deficits are to be the responsibility of the recipients. Terms and conditions for the retention of surplus funding differed among the pilots. Generally, the earlier agreements enabled First Nations to reprofile non-specific unexpended balances, and to use surpluses in capital for capital purposes. The newer agreements and models stated that unexpended non-core balances are to be returned to Canada unless the parties have agreed otherwise. In practice, however, this clause is not used.

The evaluation also found variations in what programs are included in core and non-core funding. The general tendency has been to increase the number of programs included in core funding, and hence increase the overall flexibility of the agreements. Table 6 presents the general level of use of core and non-core funding by major program areas for 12 of the earlier FTA agreements. When compared with AFAs, the FTAs offer a substantial increase in flexibility. For example, the 1993 evaluation of the long-term impacts of AFAs found that the extent to which services were included in the funding arrangement was limited and there was a high use of funding on the basis of reimbursement or actuals. In addition, the later FTA agreements and regional models for the 1996/97 fiscal year have further increased the percentage of programs and services included in the core fund. For example, some of the pilots signed for 1996/97 include all major program areas within core funding. In 1996/97, 95% of funding delivered from headquarters to the regions for all FTA pilots is expected to be core and the other 5% non-core.

**Table 6**

| Planning Element | Percentage of Agreements in Sample Using: | |
|---|---|---|
| | Core Funded Only | Core and Non-Core Funded |
| Lands and Trusts Services | 75.0% | 25.0% |
| Elementary/Secondary Education | 42.0% | 58.0% |
| Post Secondary Education | 67.0% | 16.5% |
| Social Assistance | 75.0% | 17.0% |
| Social Support Services | 58.0% | 42.0% |
| Capital Facilities and Maintenance | 58.0% | 42.0% |
| Housing | 83.0% | 17.0% |
| Indian Government Support | 67.0% | 33.0% |
| Economic Development | 92.0% | 8.0% |

*Not all programs in these two categories are delivered through the First Nations/Tribal Councils included as part of this review. Sample of 12 initial pilot agreements.

**Adjustment Methods and Reference Levels**

Table 7 presents the resourcing methods used by the pilot agreements by region. A more thorough description of these various methods is contained in the comparative analysis. The earlier agreements provided for the adjustment of core funding through a formula generally based on the population change of the First Nation plus an inflation index (usually the consumer price index or final domestic demand implicit price index). These agreements were typically unidirectional, that is, they did not provide for instances where Department funding decreases. Newer agreements are now bidirectional and include reference levels that are usually tied to national or regional Departmental allocation levels, such as the growth rate in Indian and Inuit Affairs Program expenditures.

| Table 7: Overview of Adjustment Mechanisms | | | | |
|---|---|---|---|---|
| **Region** | **Escalators** | | **Multi-directional** | **Reference Level** |
| | **Population** | **Inflation Index** | | |
| Quebec | X | | | Regional |
| Ontario | X | X | | |
| Manitoba | X | X | | National |
| Saskatchewan | X | | X | Regional |
| Alberta | X | X | | Initial Pilots None, Later Agreements National |
| B.C. NTC Pilot | X | X | | |
| B.C. Model | X | | X | Regional |

It is too early to assess the impact of introducing reference levels into the newer pilots. However, when growth rates in expenditures of pilots that do not have reference levels are compared with projected growth rates of those that do, the results suggest that this mechanism should maintain sustainable growth levels. For example, excluding capital expenditures, the average growth rate of a sample of seven pilot projects *without reference levels* was 3.51% after one year and over 13.7% in the second year. However, the growth rates are moderated when using a model that applies reference levels. Take, for example, the model of projected growth rates contained in the comparative analysis: as of 1996/97, the average projected growth rate of the First Nation population plus the projected growth in the consumer price index is greater than the projected growth rate in Indian Affairs Aboriginal Program funding, which is used as a reference level in some agreements. Based on this model, the difference between these two measures is projected to grow, suggesting that the application of reference levels will facilitate moderated growth rates.

**First Nation Use of Funding Flexibility**

Findings from the interviews and case studies of First Nations with an FTA confirm that the agreements have resulted in increased flexibility to apply funds. This increased flexibility and five-year term of the agreement are viewed as the most positive aspects of the experiences to date. Use of this flexibility, however, is viewed as long-term. According to some respondents, use requires a change in thinking from a program to a global orientation. Most thought this change was taking place and that they were now doing things that they would not have considered otherwise.

Table 8 presents aspects of the agreement's funding flexibility noted by First Nation respondents as being either initiated or planned. The case studies show that the flexibility inherent in the long-term nature of the agreements has had a large impact on the housing and capital program, enabling more extensive planning and more effective application of public works funds. Other uses of the flexibility include creative financing such as making loans by Tribal Councils to member First Nations for housing and other capital purposes. According to one respondent, long-term planning allows First Nations to predict how many homes will need to be built, when it would be best to build them, and when maintenance should be done on existing homes. According to another First Nation official, the agreements enable First Nations to become more budget-minded. Instead of reacting to DIAND-controlled funding levels, funding guarantees mean they can plan more effectively.

In one case, however, it was noted that the agreement can have an unintended effect on the planning and budgeting process. Since this process is now directed at the local level, the time required to develop budgets and plans is longer and, because of this, it can be more difficult to plan.

**Table 8: Funding Flexibility Utilization Initiated or Being Considered**

| | | | |
|---|---|---|---|
| ✔ | More flexibility to make financial investment decisions | ✔ | Community Initiatives Fund for community development projects |
| ✔ | Leveraging other federal monies and bank loans | ✔ | Economic development investments |
| ✔ | Loans to member tribes | ✔ | New programming or enhance existing ones in areas such as economic development, education |
| ✔ | Known funding permits better long-term planning, particularly in capital | | |

The FTA pilot agreements appear to be consistent with the direction suggested by First Nations not participating in the FTA pilots. They stressed the need for increased flexibility in transferring funds from program to program, and for block funding from the government to First Nations. In addition, these First Nations noted that longer-term agreements may provide more financial security and a better opportunity for them to plan. These non-participating First Nation representatives stated that they want to participate more actively in negotiating their funding and prioritizing community needs.

**Resourcing Issues**

A variety of resourcing issues were noted by First Nation and DIAND officials. These are discussed below.

Some First Nations representatives expressed concern over the risks entailed in shifting funding from a per unit basis to global block funding. While they welcome the increased flexibility, the fear is that growth in units may not be properly reflected in the growth of funding allocations. They suggested the need to examine the emergency clause in the agreements to address instances where large shifts occur. For example, the closure of a major industry could unexpectedly increase the number of persons on social assistance.

Recent entrants to the FTA process noted concern over the level of resources, the evolution of FTAs toward implementing reference levels, and the potential impact upon the flexibility of the agreement. For these representatives, the benefits of being able do to long-term planning may be limited by the terms of their agreement, which in their view, may actually decrease funding or not match the growth of their needs. A few respondents noted that the flexibility of the agreements may also be reduced though jurisdictional cross-overs. For instance, one level of government might reduce funding, requiring the flexibility of the agreement to be used to address shortfalls in these areas.

**Linking FTA Resourcing within the Current Funding Regime**

DIAND interviewees noted that the annual allocation of DIAND resources to the regional offices was program-based, which is inconsistent with a block funding approach. However, beginning in 1996/97, there will be a program code for FTAs in the DIAND code of accounts so that the regions will not have to use the old codes in administering the new agreements. FTA requirements are also being integrated into the Transfer Payments Management System.

**Transparency**

First Nation representatives argued that funding adjustments and reference levels should be transparent. According to one First Nation official, regional officials involved in developing the agreement had difficulty communicating its content. A few regional officials stated that, in developing the agreements, the Department should adopt an approach that is simple and understandable, and should be direct with First Nations regarding the fiscal environment in which the Department works and the fact that difficult funding decisions will be faced no matter which funding arrangement is adopted.

**Equity Considerations**

Initially the goal of FTA funding was to address the relationship between need and block funding on the basis of population change. Some Departmental officials see the FTA funding approach as providing an opportunity to redress potential historical imbalances in the funding levels between First Nations by providing for the allocation of funding increases (or decreases) on a redistributive basis either nationally or regionally. Toward this end, several regional redistributive methodologies have been experimented with in the more recent agreements and these are outlined in the comparative analysis. However, some regional officials noted that, depending upon the equity formula used, this method of funding may be viewed as penalizing First Nations that managed their finances effectively.

## SECTION 8 - INTERDEPARTMENTAL CO-OPERATION

- **OVERALL, INCLUDING OTHER DEPARTMENTAL FUNDING WITHIN THE FTAS REPRESENTS A BEST PRACTICE IN IMPROVING SERVICES AND ACHIEVING CLIENT SATISFACTION.**
- **IT IS A FIRST NATION-DRIVEN INITIATIVE WITH POSITIVE BENEFITS, SECURING ADMINISTRATIVE EFFICIENCIES; THESE BENEFITS CAN BE FURTHERED THROUGH INCREASED STANDARDIZATION BETWEEN DEPARTMENTS.**
- **EXPERIENCES WITH THE FTA TO DATE HAVE HELPED CLARIFY IMPLEMENTATION ISSUES; HOWEVER, SOME ACCOUNTING AND ACCOUNTABILITY ISSUES REQUIRE FURTHER CLARIFICATION.**

Of the 29 signed FTAs as of April 1996, 45% contain funding from the Solicitor General and/or Health Canada. This level of participation is high in comparison to other DIAND funding arrangements, 12% of which (213 arrangements) contain other government department funding. In 1995/96, approximately $5.4 million of other government department monies flowed through FTAs. Experience with this type of arrangement varies across regions. As of April 1996, British Columbia had the highest number of agreements involving other departments (9), followed by Alberta (2), and Manitoba (1) and Quebec (1). Both Health Canada and the Solicitor General have secured Treasury Board authority to use funding arrangements similar to AFAs.

The comparative analysis of the FTA pilots contains an in-depth overview of the terms and conditions of other departmental funding contained in these agreements, including funding from other departments in tripartite agreements. Other departmental funding (ODF) is treated as non-core, with budgets formula-funded and established annually. An ODF agreement is typically one to five years in duration and generally allows First Nations to reprofile unexpended program balances. Reporting typically involves financial information, accounting for the funded program in the audits, program reports including outputs achieved, and statistical returns on community health.

Officials in DIAND regional offices participating with other departments found the FTA experiences to date to be positive. They noted that including ODF in the FTA is a First Nation-driven process and an important initiative that should be pursued. Under the FTAs, DIAND serves as an administrative conduit through which other departmental funding flows. Officials pointed out that this arrangement enables other departments to use the infrastructure that DIAND has in place to gain efficiencies.

DIAND officials also noted that the initiative has had the additional benefit of promoting the sharing of experiences between departments, and providing an incentive for other departments to look for ways to streamline their internal procedures. In the long-term, these officials hoped such initiatives would facilitate common guidelines for financial reporting and make the funding process easier for First Nations. Officials mentioned that adjustment factors, accountabilities, and reporting requirements vary among the departments. Until they are better harmonized, the potential efficiencies of the FTA will not be fully realized. Officials also noted that although in the long term these arrangements are expected to produce savings for First Nations and the government as a whole, in the short run they do require additional resources for initial implementation.

Officials from participating departments viewed the initiative as assisting all parties to achieve common goals such as improved on-reserve living standards. Overall, they agreed with the logic and impetus for arrangements of the FTA type and see it as a valuable tool consistent with devolution. It was noted that a significant degree of co-operation between DIAND and its partners is required, especially in the early stages of implementation. Areas requiring increased co-operation include synchronizing reporting requirements and entry assessments.

Participating and non-participating departments alike voiced questions over accounting and accountability. With respect to accounting, one area identified for improved efficiency is the timing of the release of funds and the need to adapt DIAND's information management system to better accommodate the invoicing of other departments. With respect to accountability, departments saw a need for DIAND to take great care to recognize the accountability structure of partnering departments. They want to be able to report on the consistency of departmental funding across individual First Nations for departmental programs. They feel this would be difficult to do if their funding was absorbed into the core fund of the FTA. In the worst case, there might be no indication that a First Nation had spent any of a department's money on a program until the annual audited financial statements were received. In the longer term, once the accountability issues are resolved, the FTAs are seen as a potential source of efficiencies.

Other agencies that have explored co-operative efforts but not yet participated in an FTA experience to date include Human Resources Development and Canada Mortgage and Housing Corporation. It was noted that the relationship with some other departments can be difficult because their policy perspective is based on a contribution model as opposed to a block funding model. In addition, it was felt that some other departments place different priorities on the issue of self-government. Another potential barrier is the differing mandates faced by some departments. For example, Human Resources Development has program responsibility for non-status Indians, Inuit, and Metis, which broadens their mandate and makes reconciliation with DIAND's on-reserve mandate more complex.

The interviews and case studies with First Nation representatives showed that the inclusion of other departmental funding in the FTAs was demand-driven and resulted from the efforts of First Nations. Departmental representatives agreed with this view. Overall the experiences with including ODF in the FTA were viewed positively by participating First Nations. The majority of participating and non-participating First Nation officials stated that they would like to see funding agreements further rationalized. For some, this includes having a single funding agreement delivered by Treasury Board. However, several questions remain for some First Nations regarding the implications of such an initiative on their access to funding agencies and the level of funding they receive. A primary concern was the control of funds in a co-operative funding agreement, that is, whether it would be transferred to DIAND or whether DIAND would serve as an additional layer of bureaucracy between the First Nation and the other departments. Table 9 outlines how participating and non-participating First Nations perceived the strengths and weaknesses of combining departmental funding into one agreement.

**Table 9: How First Nation Representatives View the Strengths and Weaknesses of Combining Departmental Funding into One Agreement**

| Perceived Strengths | Perceived Weaknesses |
|---|---|
| - More efficient program delivery | - Potentially slower cash transfers |
| - Integration of terms and conditions from a variety of funding agreements into one comprehensive agreement, with common audits and reporting periods that save time and money and reduce duplication | - Difficulty in getting departments to work together<br>- Lack of consistency in terms and conditions could make the FTA more cumbersome |
| - Increased management flexibility, which promotes local accountability and simplifies First Nation finances | - Departments might off-load the responsibility for future budget reductions to other departments, which may affect the funding levels allotted to First Nations |
| - Reduced funding application work | - Inclusion of other Departments in the FTA funding formula could potentially cap future funding levels |
| - More long-term stability and ability to engage in more accurate long-term planning | |
| - Increased cash flow and potential leverage for increasing funding levels | |

## SECTION 9 - IMPACTS

- **THE EXPERIENCES WITH FTAS TO DATE HAVE HAD POSITIVE IMPACTS UPON FIRST NATIONS' FLEXIBILITY TO APPLY FUNDS AND ARE VIEWED POSITIVELY BY PARTICIPATING FIRST NATIONS; HOWEVER, SOME NEWER ENTRANTS TO THE PROCESS VOICED CONCERNS OVER EVOLUTION OF THE FTA IN TERMS OF RESOURCING LEVELS AND LOCAL ACCOUNTABILITY REQUIREMENTS.**
- **THE EXPERIENCES TO DATE HAVE PROVIDED AN OPPORTUNITY TO RE-EXAMINE DEPARTMENTAL AND LOCAL ACCOUNTABILITY REGIMES; ALTHOUGH SOME OF THE NEWER PILOTS HAVE MADE SUBSTANTIAL PROGRESS, A NUMBER OF QUESTIONS REMAIN REGARDING FUTURE FTA IMPLEMENTATION.**

This section examines the short-term intended and unintended impacts of the experiences to date with FTA as identified in the AFA authority and other associated documents.

Overall, the experiences to date are viewed positively by participating First Nations/Tribal Councils. The majority (80%) of participating First Nations/Tribal Councils stated that they were either very satisfied or satisfied with their funding arrangement, while one reported feeling neutral and two felt that it was too early to comment. In contrast, only 57% of non-participating First Nations stated they were satisfied with their funding arrangements; 20% were dissatisfied and 20% were neutral. It should be noted however, that First Nations with an AFA were generally more satisfied with their funding arrangement than those with a CFA. Those in the process of entering into an FTA pilot had mixed views.

Regional DIAND officials generally viewed the experiences to date positively. Although headquarters officials were less knowledgable about the experiences to date, they were generally positive about the future potential of FTAs. However, several officials had substantial questions surrounding FTA content and future implementation.

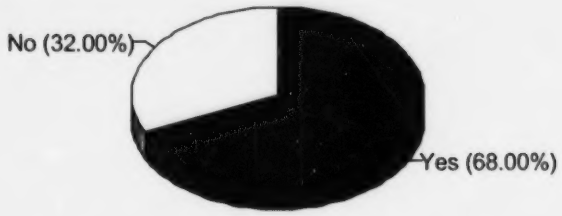
**Enhanced Accountability of First Nations/Tribal Councils to Their Constituents**

Overall, the experiences to date with FTAs have had a positive effect on the accountability of First Nation governments to their constituents. Participating First Nations that formerly had an AFA pointed to this initial AFA as having had most impact on their local accountability structures. The newer FTA agreements are now formulating local accountability frameworks and these agreements contain increased local accountability requirements.

Chart 18 presents the responses of First Nations with an FTA and those in the process of obtaining one. Of the First Nations with an FTA, 71% reported changes to their local accountability practices as a result of the FTA. Most First Nations in the process of obtaining an FTA (64%) anticipate that FTA will result in changes to their local accountability practices and that some of these changes have already occurred. Those that answered no thought that the system may just formalize what is already in place.

**Chart 18**

**Has the introduction of your new funding arrangement resulted in any changes to your local accountability practices or do you anticipate any changes?**




N = 25

The case studies undertaken as part of the evaluation reveal that the FTA pilots have led to an increased awareness of the importance of accountability. It was noted that First Nation members are increasingly recognizing who is responsible for program delivery and are becoming more interested in the activities of their governments. First Nations are also becoming better organized in distributing information and controlling their finances, and are setting up extra accountability structures such as elder committees. Placing responsibility for developing the budgeting process at the local level has stimulated programs to compete for funding; however, the extent and nature of this impact varies. The entry assessment process was considered by First Nation and Departmental representatives to be at least as important as the agreement itself in promoting First Nation accountability. An important effect in this regard is the promotion of stability in management systems and the separation of the administrative and political arms of First Nations.

Since only the FTA agreements under development at the time of the evaluation included more definitive local accountability frameworks, limited information was obtained regarding First Nations' experiences with them. First Nations in the process of developing agreements raised questions over increased local accountability and associated levels of control exerted by First Nations, and over the implications of the increased focus on First Nation accountability for the division of responsibilities between the Department and First Nation Councils. Some First Nation officials noted that if they are to be held accountable, they want more control of and input into minimum program requirements. According to one First Nation representative, resourcing also has an impact on accountability. With reduced resources, it is difficult to be more accountable, since reduced resources limit the flexibility of financial managers in making decisions on community priorities. However, another First Nation representative noted that as funding levels diminish, First Nations are going to have to use other avenues to finance themselves.

**Improved Accountability of the Minister and First Nation Councils with Respect to the Delivery of Public Services**

The experiences with FTAs have helped clarify the division of funding and service delivery responsibilities between DIAND and First Nations. Participating First Nations have generally been willing to accept the shift of responsibility and the increased risk as a trade-off for the increased flexibility offered by the agreements.

The general view expressed by the regional staff was that overall, accountability of First Nations to the Minister, and of the Minister to Parliament, should improve as a result of the newer versions of the FTA pilots. The comparative analysis confirms that some of the later agreements have markedly increased accountability provisions. Departmental officials noted that the experiences to date and the development of the draft national generic model have helped start the process of clarifying essential reporting and accountability requirements; however, they recognized that strengthening accountability will require time and consultation with First Nations.

The experiences with FTAs, in addition to the Department's experience with AFAs, suggest the need for reporting requirements that reflect the increased programming/budgeting responsibilities, focusing on quality and timeliness and maximizing, to the extent possible, use by both First Nations and the Department. Although the accountability requirements were viewed as sufficient for the First Nations participating in the FTA pilots, there were concerns about their adequacy for future implementation. DIAND officials noted that it is unrealistic to expect all recipients to develop immediately all the checks and balances needed to be responsible for an FTA. The management of these risks is viewed as heightening the need for enhanced Departmental accountability provisions in the interim.

Toward this end, respondents noted the need to further clarify the general direction of accountability represented by the FTAs. Specifically, they felt that the way in which the regions and the Department in general will be held accountable for program expenditures and outputs needs to be clarified and consistently applied. A significant number of Departmental respondents noted that the introduction of a block funding approach should not preclude program accountability, since this is still required under the current regime. Because block funding places financial responsibility at the First Nation level, the Department needs to provide financial and performance information on programs to protect the government's interests.

**Local Checks and Balances Support Probity and Achieving Value in the Use of Funds**

Evidence from the case studies suggests significant advances in the use of local checks and balances. However, since most of the pilot projects have yet to go through a full audit cycle, the extent of these advances is not fully known.

Since an FTA agreement places responsibility for budgeting with the First Nation, the checks and balances at the local level are achieved primarily as programs compete for funding within the First Nation. For example, in the case of a Tribal Council, a competitive process takes place at the budgeting committee at the outset of the budgeting process. Each program presents its case for funding and projects are assessed relative to one another. The budget is presented at the annual meeting of the member First Nations, which fosters probity because budget decisions are made openly, collectively, and with a clear understanding of the choices to be made. The impacts extend to the internal accounting and reporting procedures, which have to comply with the allocations made in the collective budgeting process and require approval before changes are made.

However, the nature and extent of this impact are not necessarily consistent. In one of the case studies, a remedial management plan (RMP) was instituted during the course of the agreement, due in part to inadequate local checks and balances in the decision-making systems. Although the existence of the RMP confirms that the provisions of the agreement are enforced, it highlights the necessity for First Nations to maintain their local financial and management information systems.

Although regional DIAND officials stated that it was too early to tell whether increased probity has been achieved, they generally agree that local First Nation information systems will need to be enhanced and should be specifically targeted in future management assessments. In addition, the comparative analysis of the agreements shows they contain a number of positive developments that should strengthen this area.

**A Clearer, More Effective Relationship between the Crown and First Nations**

Regional staff indicated that while the relationship between DIAND and First Nations/Tribal Councils participating in the FTA pilots had always been positive, it has become more businesslike under the pilots, with less frequent contact.

Some Departmental respondents indicated that, in conjunction with other activities such as treaty making and claims, the AFA and FTA agreements have made an important contribution toward self-government because they have enabled First Nations to assume more responsibility for managing their own affairs. The basic premise is that the greater the degree of self-government, the clearer and more effective the relationship between DIAND and First Nations will be. In developing the new agreements, the British Columbia Region advises First Nations that the FTA is primarily an exchange of increased local authority for increased accountability of Council to its members and to Canada. ***First Nation officials associated this more business-like relationship with the view that the global funding arrangement is a fiscal transfer related to program and service treaty entitlements, viewed as a basic principle.***

As shown in Chart 19, the majority of First Nations participating in an FTA pilot noticed a change in their relationship with the Department. Overall this change was viewed as positive and the relationship as more independent. First Nations in the process of entering an FTA were divided on whether they anticipate a change in the relationship. Concerns were expressed about the evolution of the FTA, particularly the implementation of reference levels in the agreement. It was felt that the relationship could be adversely affected if the changes become too restrictive or demanding.

**Chart 19**

**As a result of your funding arrangement, have relations with the Department changed or do you anticipate a change?**

**(a)**

**(b)**

## Management of the Crown's Exposure to Liability

It is difficult to assess the extent to which the Crown's exposure to liability has been managed. Interviews with Departmental officials provided no indications that the Crown has been any more exposed to liability under the FTAs than it has been under other arrangements. Some thought there was a need to maintain the legal integrity of the agreements and that this aspect was not focused upon in the initial FTA experiences. The development of the national generic model was viewed as an opportunity to improve the legal integrity of the Department's funding arrangement. Some of the newer agreements signed at the start of the fiscal year include enhanced provisions toward this end, including requirements for insurance, extended remedial action clauses, and the structure and division of responsibilities. However, it was noted that First Nations are not resourced for insurance. A particular focus in this area has been to ensure that the agreements cannot be interpreted as an agency relationship.

**More Flexibility for First Nations/Tribal Councils to Modify Programs and Apply Funds to Meet Community Priorities**

The specific impacts of the FTA on flexibility to apply funds, design of community programs, long-term planning, and human resources management are discussed below.

- **Flexibility to Apply Funds:** Increased flexibility to apply funds is viewed by all participating First Nations and Tribal Councils as the primary impact of the FTA experiences. However, only half of those in the process of obtaining an FTA anticipate increased flexibility. The flexibility to direct surplus social assistance funds into education brought about the largest number of program changes. Although some First Nations feel that they have not had their agreements long enough to use the flexibility, others are using it to bank their surpluses to fund future capital projects or expand services such as family service programs. Departmental officials viewed the FTA experiences as having had the largest impact in this area. The comparative analysis undertaken as part of the evaluation confirms that, compared with other Departmental funding arrangements such as AFAs, FTAs have substantially increased the flexibility to apply funds.

- **Design of Community Programs:** Another major impact of the FTA has been increased ability to design community programs. The interviews showed that 86% of First Nations with an FTA experienced impacts in this area, whereas only 64% of those entering an FTA expect this to occur. The case studies reveal several instances where community policies and programs are being developed and this capacity is viewed as beneficial. Most planned or actual changes focus on social assistance and education.

- **Long-Term Planning:** Increased ability to undertake long-term planning was identified as an impact by 71% of First Nations with FTAs, while 68% of those entering agreements anticipate impacts in this area. The five-year duration of the agreements was seen as valuable for the long-term planning it enables, particularly for housing and other capital expenditures.

- **Human Resources Planning:** Of those First Nations with an FTA, 64% reported impacts on human resources planning, while the majority of those entering agreements predicted no impacts in this area. In two of the case studies, removal of restrictive DIAND program standards has led to re-evaluation of employee positions and creation of more meaningful full-time positions that give staff more responsibility.

In one case, apprenticeships are being created: until the introduction of their FTA, human resource development was not a co-ordinated activity and each program area tended to work separately on staff development. Some respondents entering an FTA stated that there was a need to examine the abilities of their organization and make improvements or adjustments to handle the increased responsibility. *One of the case studies reveals some best practices in maximizing the utility of the entry assessment. As part of the assessment, a human resources strategy was produced as a joint venture between the First Nation, Human Resources Development, and DIAND. This plan catalogued the skills of residents and created a job classification system. With these instruments, the First Nation hopes to be able to match individuals to positions and plan for the education/development of staff.*

**A Streamlined, Focused, and Logical Resource Management Process**

Intended and unintended impacts of the FTAs on the resource management process were found at the First Nation and Departmental level. These are discussed below.

- **First Nations/Tribal Councils:** It was reported that the FTAs did streamline resource management processes since they reduced the number of agreements. However, some First Nations noticed that the increased responsibility has led to an increase in administrative paper work and related costs. In part, this growth has occurred because planning and programming both require increased administrative support. The extra responsibility also means First Nations must pay more attention to their budgeting processes, which now take more time to implement. As a result of the increased policy and programming authorities under FTAs, First Nations felt they were playing a larger role in conducting their own affairs with other governments, such as the provinces and local municipalities, and school boards.

- **Department:** For the Department, the FTAs have also served to streamline the resourcing process by reducing the number of agreements with each First Nation. The majority of DIAND personnel at headquarters and in the regions saw workloads declining in the long term, and viewed the experiences to date as consistent with Departmental downsizing and devolution initiatives. Smaller workloads were expected primarily because of the streamlining of accountability and resourcing terms and conditions for all funding arrangements, as well as the increased authorities for First Nations.

However, officials recognized that it may be some time before staff savings can be realized because the initiation of an FTA process is complex. In the short term, the introduction of the FTA pilots has meant increased workloads, requiring more resources devoted to this area. The development and implementation process had been more time-consuming and intensive than expected for the negotiating team. Some officials questioned the current level of resources being devoted to FTAs, particularly at headquarters, and felt resources should be increased given the amount of work required for future development and implementation.

**Incentives for First Nations to Use the Most Cost-Effective Service Delivery Processes and Reduced Disincentives for Using Own-source Revenues**

The introduction of FTAs is consistent with the recognition that local service delivery and control over decision making is a more effective means of delivering First Nation services. As mentioned earlier, case studies undertaken during the evaluation reveal that local control of the budget-making process results in increased competition between the First Nation programs and linking budget decisions with local priorities.
Regional DIAND staff generally believe that the FTA experiences show that disincentives for using own-source revenues have been reduced, although the extent to which this can be traced to the agreements is not clear. It was felt that the overall attitude and approach taken by participating First Nations is consistent with the intended impact. Evidence from the case studies suggests that the participating First Nations are placing an increased priority on own-source revenues; however, officials noted that these First Nations had always placed an emphasis on this area.

The later agreements, such as the British Columbia model agreement, include specific reference to own-source revenues and revenue generation, recognizing that the intent of the agreement is to assist the Council financially in providing established programs, services, and targeted projects. Some First Nations participating in the case studies felt the agreement could be used to leverage funding, although this view was not widespread among those interviewed by telephone. Three First Nations participating in the case studies noted that the five-year term of FTAs has had an impact upon their ability to leverage financing with other organizations. For example, the security of five years of guaranteed funding helped one First Nation to refinance some of its loans without ministerial guarantee.

## SECTION 10 - LESSONS LEARNED

The experiences to date with FTAs have contributed to the development and understanding of these arrangements. Departmental respondents noted that from a practical perspective there is still much to learn and this will only come from future experiences. Some of the lessons learned and success factors in areas such as process, resourcing, accountability, and other departmental funding are outlined below.

### *Entry Process*

- **Data Management:** The data-cleaning exercise involved in setting the initial base budget is essential for establishing a positive relationship throughout the agreement development process. Efficiencies can be gained in later stages by ensuring the quality of the data at the outset of the process.

- **Information Sharing:** Sharing information so that both parties are working from the same information base is viewed as a best practice.

- **Entry Assessment:** Early and thorough entry assessment that is clear, rigorous, and systematic is essential to the process. It ensures that basic administrative requirements are met, that deficiencies are remedied, and, if necessary, that the First Nation is assisted in developing the tools needed to manage the agreement properly (policies, business plans, etc.). In terms of risk management, if areas for improvement are identified, remedies can be built into the agreement or the FTA can be deferred until the problems are addressed.

### *Agreement Development and Implementation*

- **Involvement:** The community should be involved and consulted throughout the agreement development process.

- **Information Sharing:** Sharing information between First Nations through activities such as a national inventory of best practices concerning areas such as innovative policy development, accountability by-laws, etc should be promoted. Utilization of DIAND's home page on the Web could assist this process.

- **Team Approach:** A team approach including senior officials, field officers, and program analysts is viewed as a best practice to promote effectiveness. The team's mandate should be clear to all parties.

- **Rate of Implementation:** The rate of implementation should be planned to provide sufficient time for thorough entry assessment and data cleaning, and should focus on those First Nations with stable administrative organizations so that practical experience can be gained by all parties.

### *Resourcing*

- **Base Budgets:** Formulas, such as those used in determining allocations for education programs, should be used wherever possible in negotiating the basic agreement.

- **Transparency:** Adjustment mechanisms and reference levels should be transparent and easily communicated.

- **Standardized Reference Levels:** Basing reference levels on regional allocations, as opposed to national allocations, helps provide stability for Departmental budgeting.

- **Monitoring:** To ensure sustainable growth levels, the number and type of amendments should be closely monitored.

### *Accountability*

- **Management Flexibility:** The process for First Nations to amend policy should be clearly written into the agreements. The Quebec and British Columbia model agreements provide examples of best practices for this.

- **Reporting:** DIAND's reporting of financial results through its existing budgeting and accounting systems needs to reflect the different reporting arrangements needed for FTAs while continuing to reflect the need for reporting at a program level. Using the audit in accordance with the System of National Accounts in conjunction with results reporting would provide vital financial and program reporting information.

- **Requirements:** The FTAs should be explicit about accountability requirements, enforcement, compliance, penalties, and mechanisms for resolving disputes. The continued enforcement of the terms and conditions of the agreement is essential to accountability to the Minister and the community.

- **Data Monitoring:** The experiences with CFAs, AFAs, and FTAs have shown a definite need to clearly communicate the methods used by the Department to examine the quality of data it requests. This delineation of methods assists First Nations and Departmental personnel in aggregating data for analysis and interpretation.

- **Clarity of Objectives and Success:** A primary purpose of the reporting requested of First Nations is to show that value has been received for funds expended. Toward this end, the presentation of the required reporting should clearly show how reporting is associated with agreement terms and conditions and the performance measures used. The terms and conditions should be clearly stated and communicated in a format that shows the required objectives and expected delivery standards. To assist this, there should be consistent linkages between the various tools used and each of these should be linked with the agreement terms and conditions. For example, the FTA management assessment, agreement, budget, reporting guide, audit, and data reviews.

### *Other Government Department Funding*

- **Sharing of Practices:** Experience with other government department funding in DIAND FTAs varies among the regions. There is a need for increased sharing of practices to understand appropriate practices and their implications. Such communications should state the level of priority that ought to be placed upon such initiatives.

- **Inter-Departmental Cooperation:** The Department must take care to respect the accountability regimes of its partners. Formalizing relations between departments and an expanded role by central agencies would assist this.

## SECTION 11 - CONCLUSIONS AND RECOMMENDATIONS

This section presents the conclusions and associated suggestions and recommendations of the evaluation. Overall the experiences to date with FTA have been positive. They represent the introduction of a full service, block funding agreement in that it provides First Nations and related organizations with increased budgeting and programming responsibilities subject to minimum conditions. The move toward global block funding has continued relevance since it supports First Nations' aspirations as cited in the Penner Report. With the introduction of changes to the adjustment and reference levels, the newer agreements should enable First Nations and the Department to operate in an environment of moderated resource levels.

### Agreement development and implementation process

Sound information management systems and budgeting are fundamental to successful implementation at the local level. Toward this end, having an experience with an AFA prior to entering an FTA is viewed as beneficial. Entry assessments were found to be instrumental in developing or confirming the necessary requirements and are viewed as one of the best ways of determining whether sound accountability systems are in place. Implementation should be well planned, providing sufficient time for Departmental and First Nation officials to undertake adequate entry assessments and to develop and implement the management plans needed to address identified improvements.

- It is recommended that, prior to initial entry, joint management assessments be undertaken with all First Nations, regardless of former funding arrangement, with a particular focus on local information management systems and budgeting. Management plans should be developed, in collaboration with the First Nation, where entry requirements are not met.

Orientation and training are required for First Nation leaders and administrators who will assume major additional governance and administrative responsibilities. Orientation should provide information on use of the agreement, with an overview of associated risks and benefits. Training should focus on enhanced accounting and management functions, with instruction on developing and using budgets, interpreting financial statements and other financial information, making efficient use of computer and communications technology, and the procedures of the agreement with DIAND.

- It is recommended that orientation sessions be held with Chief and Council at the outset of the agreements. In addition, orientation of Chiefs and Councils elected during the term of the agreement should be undertaken, with this option built into the agreements.

- It is recommended that a training program be developed that focuses on building program and financial management capacity for First Nation officials and staff.

**National generic model**

The lack of a generic model/guideline accepted by all regions, including the data to be supplied by First Nations who have FTAs, resulted in some regions preparing their own model. While this resulted in some innovations, consistent terms and conditions throughout the agreements would have enabled a better assessment of the FTA tool and would have facilitated more consistent expectations of the agreement. Toward this end, a primary focus should be on finalizing the national generic model.

- It is recommended that the national generic model be confirmed as soon as possible.

One of the strengths of the development process is its interactive nature, involving both regional and headquarters officials. This involvement should be encouraged. However, the scope and influence of the FTA initiative requires improved information distribution, active contributions from different groups, and clarification of the roles and responsibilities of the groups involved in the initiative. In developing the national FTA model, the re-alignment of program specialists within headquarters should provide a firmer basis for headquarters to fulfil its policy development and advisory role and to promote consistent application of national standards across the country. Further clarification of the roles and responsibilities within the development process would also help.

- To assist in finalizing the national generic model, it is recommended that a formal process be established, such as an intersectoral task force consisting of senior headquarters and regional departmental officials, along with a working group and a working timetable.

- It is recommended that the division of responsibilities among sectors and directorates within headquarters for funding arrangements (such as developing and monitoring program terms and conditions, reporting, etc.) be clarified and clearly communicated throughout the Department.

**Communications**

Consistent communications regarding the nature of FTAs and the authorities they contain is important. Standardized tools will assist in this regard, particularly the FTA entry assessment and finalization of the national generic model. Nevertheless, a consistent understanding of what FTAs entail is required at all levels in the Department, particularly at the operational levels. This will ensure consistent communications with realistic expectations regarding the funding arrangement.

- It is recommended that training, including workshops on FTAs for DIAND financial officers and program analysts, be integrated into the implementation process.

- It is recommended that ongoing internal communications be established, such as a newsletter, regarding FTA status and developments.

- It is suggested that the department facilitate inter-First Nation communications by promoting the development of a national inventory of best practices among First Nations in areas such as policy, programming, and accountability initiatives.

**Resourcing**

The evaluation found that the experiences to date with FTAs have resulted in the introduction of a block funding arrangement and that the flexibility this provides is viewed as beneficial by participating First Nations. A number of barriers to flexibility noted in AFAs have been significantly reduced, resulting in a substantial increase in flexibility under the new funding arrangement. The ability of the adjustment factors and reference levels to maintain growth at sustainable levels is partly dependent upon the level of amendments made to the agreements during their implementation. Toward this end, the rules for using the emergency clause within the agreements should be clearly established to assist Department officials in its application.

The Department is adapting its internal resourcing to accommodate block funding, which will standardize how regions are resourced under FTAs. This should help standardize the funding of programs across headquarters and the regions. However, to ensure transparency and equity in the funding process, there should be a standardized distributive model between the Department and First Nations. Equity across and within regions should be a principle in its formation.

- It is recommended that a national, standard, transparent distributive resourcing model be used between the Department and First Nations.

**First nation local accountability**

Experiences with FTAs to date have resulted in substantial progress in promoting local accountability measures and integrating these within the agreements. Questions are raised, however, regarding the monitoring and enforcement of such measures and the role, if any, of DIAND in this context.

- It is recommended that the Department and First Nations work together to implement a limited number of pilot projects aimed at promoting the use of evaluation at the community level. These pilots would provide an evaluation framework, consistent with the block funding initiative, for use by First Nations and would foster the use of self-evaluation at the community level.

**Ministerial accountability**

The evaluation found the experiences to date with FTAs and the process for developing the national generic model have been instrumental in developing a Departmental accountability framework and promoting review of the Department's reporting requirements. Later agreements, in particular, are making clear moves toward enhanced terms and conditions. Although the AFA reporting guide was generally felt to be adequate for those First Nations participating in an FTA experience, concerns were expressed about the implications of this level of reporting on future FTA implementation. To meet these concerns, reporting should be consistent with the level of increased responsibilities, focusing on quality, timeliness, improved checks and balances, and maximizing use by local First Nations and the Department.

Regional officials noted that with the de-linking of reporting for resourcing purposes, the role of reporting will change. Efforts should be made to ensure that compliance with reporting requirements is not adversely affected by this change. Suggested actions include the development of clear enforcement provisions, along with consultations with First Nations regarding the importance of this information.

Questions were raised regarding the extent of the authorities represented by the FTAs in terms of the flexibility of programming authorities subject to the minimum program terms and conditions and associated provincial legislative requirements in areas such as social assistance. A workshop on this subject, held as part of the agreement development phase, would provide a good opportunity for First Nations to further understand the level of authority provided by the agreements. In addition, the agreements should clearly stipulate the degree to which these authorities must adhere to provincial legislation to ensure clear communications both within the Department and between the Department and First Nations and related organizations. Best practices in this regard were found in several regional models whereby all relevant legislative and regulatory requirements are attached to the agreements.

Accountability concerns were noted regarding the implications of financial reporting regimes under FTAs, particularly for the ability to report on actual program expenditures. Until the programming structure of the Department changes, the ability to report at a program level will still be required. In the long run, if the Department is to move to full implementation of global funding, a system of fund accounting should be considered at the national and local levels to ensure standardized reporting of projected and actual expenditures.

- It is recommended that First Nations be consulted as part of the Department's review of its reporting requirements.

- It is recommended that financial information (at the program level consistent with Departmental authorities) on actual expenditures be provided on a national basis within the Departmental estimates.

Currently, FTA authority is derived from AFA Treasury Board authorities established in 1986. Although Treasury Board found these authorities to be consistent, updating them would help the Department ensure that all proper authorities are confirmed and would provide a means to clearly communicate the FTA instrument.

- It is suggested that consideration be given to replacing the 1986 Treasury Board Submission with a revised FTA authority.

Differing views were found on the role of compliance reviews and their relevance in block funding. There is clear agreement, however, that the minimum standards of the agreements should be clearly defined and assurance provided that they are enforced. The evaluation found that data reviews are still useful in this regard and provide an important element of the Departmental accountability framework. Standardization of the reviews may allow the Department to monitor programs more effectively and provide clear guidelines for evaluators and First Nations. Questions were raised regarding the implementation of compliance reviews, such as availability of resources, and various options for their delivery are under discussion, such as conducting them as part of the audit.

- It is recommended that there be a DIAND FTA agreement data review guide, with appropriate monitoring criteria and checklists like those in the entry assessment guide. These reviews should be conducted prior to signing the FTAs and the standardized program requirements and evaluation methodology should be communicated to First Nations prior to the reviews thereby assisting in garnering greater acceptance at the First Nation level.

**Other government departments**

The inclusion of other federal government department funding within DIAND funding arrangements is a First Nation-driven process, which promotes efficiencies at the First Nation and departmental level by streamlining the funding process. However, further standardization of reporting practices and accountability conditions across departments would facilitate attaining these objectives. The evaluation found that the procedures for interdepartmental participation in the FTA could be improved by providing for systematic checks of detailed considerations, such as the exact funding authorities involved and the timing of funding procedures. The creation of interdepartmental committees at the national and regional levels, including an expanded role for central agencies would serve to promote information sharing and a commitment to interdepartmental funding arrangements with First Nations.

- It is recommended that the Department's information management system be updated to reflect interdepartmental initiatives.

- It is recommended that DIAND senior officials in coordination with central agencies approach other federal departments about entering into memorandums of agreement re-affirming the commitment to enter into interdepartmental block funding arrangements with First Nations.

# Terms of Reference

# TERMS OF REFERENCE

## EVALUATION OF EXPERIENCES TO DATE RELATING TO THE RESOURCING AND ENHANCED ACCOUNTABILITY REGIME

**BACKGROUND:** Since the mid-1980s, the Department of Indian and Northern Affairs has introduced a variety of new funding arrangements such as Alternative Funding Arrangements (AFAs) and Flexible Transfer Payments (FTP). These arrangements were introduced in response to desires, as articulated in the report by the Special Committee on Indian Self-Government (1985), of First Nations to increase their control over available funds and program delivery.

Previous Departmental evaluations have found that First Nations are making use of these funding arrangements; however, it was also found that First Nations are keen to pursue the objective of being funded on more of a government -to-government basis. Within this context, the Department initiated a number of pilot projects across the country to examine a new type of resourcing and enhanced accountability regime.

The Department maintains two objectives in undertaking these pilot projects. The first relates to ensuring that this new type of regime results in value-for-money. Community leaders will work with their membership to establish priorities over the longer term to gain the maximum benefit from funding allocations. The second objective relates to ensuring accountability for the effective use of funds. The key accountability elements are established within the community as to how funds and programs are to be managed and then reported to community members. Within this context, DIAND's Minister continues to be able to account for funds appropriated by Parliament to support Indian and Inuit programs and services.

As of the fiscal year 1994-95, the Department implemented 9 pilot projects and has the authority to implement up to 25[3]. At the request of the program, the Evaluation Directorate of the Departmental Audit and Evaluation Branch has already developed an evaluation framework.

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[3] The regional distribution of these pilot projects are as follows: British Columbia (1); Ontario (5) and, Alberta (3).

**NEED:** This evaluation will enable the Department to meet Treasury Board's expectations for information on initial implementation and results achieved to date.

**SCOPE:** The evaluation will examine a sampling of experiences-to-date with the resourcing and enhanced accountability regime across Canada. The evaluation will assess the projects since their initial implementation to the present.

**ISSUES:** The evaluation will address the following issues:

- To what extent have the targets and objectives of the resourcing and enhanced accountability regime been met?
- Is the resourcing and enhanced accountability regime addressing identified needs for change in terms of accountabilities? And if so, how?
- What have been the impacts, intended and unintended?
- What lessons can be found in terms of the delivery process? What are the factors of success?

**APPROACH:** The evaluation will be conducted with a mixture of in-house and contracted resources. The primary evaluation method will be four to five case studies of First Nations and Tribal Councils with pilot projects. In addition, interviews will be conducted with a number of DIAND representatives.

An evaluation advisory committee, consisting of representatives of First Nations and Tribal Councils as well as one regional representative and one headquarters representative, will be created in order to assist in the conduct of the evaluation. This committee will be chaired by a representative of the Audit and Evaluation Branch.

**COST:** The estimated cost of this evaluation is $60 to 75K. Planning for this evaluation will commence during the summer, 1995 and the report will be finished by April 1996.

Approved by:

A. Williams
Assistant Deputy Minister
Corporate Services
June 21, 1995

# Action Plan

AUDIT AND EVALUATION / VERIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION

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PROJECT TITLE / TITRE DU PROJET : INTERIM EVALUATION OF THE EXPERIENCES TO DATE WITH FINANCIAL TRANSFER ARRANGEMENTS (FTAs)

REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE : **Corporate Services**

| (1) RECOMMENDATIONS / RECOMMANDATIONS | (2) REPORT / RAPPORT PAGE NO. | (3) ACTION PLAN / PLAN D'ACTION (If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.) | (4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE) | (5) PLANNED COMPLETION DATE / DATE PREVUE DE MISE EN OEUVRE |
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| 1. It is recommended that, prior to initial entry, joint management assessments be undertaken with all First Nations, regardless of former funding arrangement, with a particular focus on local information management systems and budgeting. Management plans should be developed, in collaboration with the First Nation, where entry requirements are not met. | 61 | In the Minister's June 1996 letter to all Chiefs, he stated that management assessments would be undertaken regardless of funding arrangement. At the October 1996, Senior Management meeting on FTAs this direction was fully supported. Management assessments will be undertaken and where improvements are needed specific terms and conditions will be inserted in the agreement (On-going item). All assessments will be completed in 1997. | Director, Transfer Payments | August 29, 1997 |
| 2. It is recommended that orientation sessions be held with Chief and Council at the outset of the agreements. In addition, orientation of Chiefs and Councils elected during the term of the agreement should be undertaken, with this option built into the agreements. | 61 | The department intends to develop an Orientation of Chief and Council manual which would outline the responsibilities and practices of the Council to ensure proper accountability as it relates to the FTA agreement.<br><br>Orientation sessions will be provided at the time of introducing the FTA, at the time of change of Chief and Council, and as may additionally be requested. | Director, Transfer Payments<br><br>Regional Directors, Funding Services | March 31, 1998<br><br>August 31, 1998 |
| 3. It is recommended that a training program be developed that focuses on building program and financial management capacity for First Nation officials and staff. | 61 | The department initiated a number of projects related to improving the financial management capacity for First Nation communities. A diverse array of training courses and workshops have been deve'oped and delivered to First Nations administrators. These include: Financial Analysis Skills, Remedial Management Planning, Management Assessment, Budgeting, Tendering and Contract Administration, Audits and Business Planning. Furthermore, work has begun in establishing two Aboriginal Financial Manager Associations to strengthen financial management in First Nations communities. | Director, Transfer Payments | August 31, 1998 |

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| Recommendation 3 (cont'd) | | Regions are undertaking ongoing capacity building initiatives such as developing and delivering workshops by the department or through third party and Aboriginal organizations.<br><br>Management Development Plans will be used to identify training needs specific to the First Nation. | Regional Directors, Funding Services | August 31, 1998 |
| 4. It is recommended that the national generic model be confirmed as soon as possible. | 62 | The department intends to continue piloting the FTA with First Nations for another year. A draft national generic model has been submitted to the regions for their consideration and use, recognizing regional variances. Adjustments to this document will be made throughout the year on an as-needed basis and finalized prior to full implementation | Director, Transfer Payments | March 31, 1998 |
| 5. To assist in finalizing the national generic model, it is recommended that a formal process be established, such as an inter-sectoral task force consisting of senior headquarters and regional departmental officials, along with a working group and a working timetable. | 62 | A series of senior management meeting were held on FTA issues. The October Senior Management meeting on FTAs defined a number of inter-sectoral task forces (e.g. Reporting working group). Work is continuing. | Director, Transfer Payments | Completed since October 1996 |
| 6. It is recommended that the division of responsibilities among sectors and directorates within headquarters for funding arrangements (such as developing and monitoring program terms and conditions, reporting, etc.) be clarified and clearly communicated throughout the department. | 62 | A consultative paper will be developed and circulated among sectors and directorates within headquarters and regions to clarify roles and responsibilities regarding the funding arrangement process. | Director General, Finance<br><br>Director General, Information Management<br><br>Director General, Socio-Economic Policy and Programming | May 30,1997 |

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| 7. It is recommended that training, including workshops on FTAs for DIAND financial officers and program analysts, be integrated into the implementation process. | 62 | Transfer Payments Directorate is undertaking a national workshop for regional management and Financial Services Officers and intends to use this forum to include FTA training and a number of related issues:<br><br>- accountability;<br>- assessments.<br><br>This national workshop is in addition to those outlined under recommendation #3 which involve departmental and First Nation representatives. | Director, Transfer Payments | March 31, 1997 |
| 8. It is recommended that ongoing internal communications be established, such as a newsletter, regarding FTA status and developments. | 62 | In the interim, communications will be established through two venues:<br><br>a) the development and distribution of a Communications Plan; and<br><br>b) through the monthly conference calls with Regional Directors of Corporate Services, and, Funding Services.<br><br>In the longer term, Transfer Payments will explore the possibility of a bulletin board.<br><br>Regions should keep First Nations informed on an ongoing basis. | Director, Transfer Payments<br><br>Regional Directors, Funding Services | March 31, 1997<br><br>November 28, 1997<br><br>March 31, 1998 |

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| 9. It is suggested that the department facilitate inter-First Nation communications by promoting the development of a national inventory of best practices among First Nations in areas such as policy, programming, and accountability initiatives. | 63 | The Research and Analysis Directorate is responsible for developing a national inventory on best practices in the areas such as policy, programming and accountability initiatives.<br><br>Transfer Payments Directorate has agreed to develop a national inventory of best practices in the specific areas of accountability and governance codes. | Director, Research and Analysis<br><br>Director, Transfer Payments | March 31, 1997<br><br>August 29, 1997 |
| 10. It is recommended that a national, standard, transparent distributive resourcing model be used between the department and First Nations. | 63 | Work is currently proceeding on developing an appropriate resourcing model. | Director, Transfer Payments<br><br>Director, Resource Management and Reporting<br><br>Director General, Socio-Economic Policy and Programming | May 29, 1998 |
| 11. It is recommended that the Department and First Nations work together to implement a limited number of pilot projects aimed at promoting the use of evaluation at the community level. These pilots would provide an evaluation framework, consistent with the block funding initiative, for use by First Nations and would foster the use of self-evaluation at the community level. | 63 | A partnership approach between the department and First Nations will be used to develop an evaluation framework for First Nations Governments. This would then be provided to First Nations to consider applying it at the community level. As part of this process, the Directors General of Socio-Economic Policy and Programming, and, Information Management will be consulted. | Director General, Departmental Audit and Evaluation<br><br>Director General, Finance Branch | September 30, 1997 |

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| 12. It is recommended that First Nations be consulted as part of the department's review of its reporting requirements. | 64 | An inter-sectoral working group consisting of regional and headquarters representatives on reporting has been established. The chairperson for this group is the Director General of Socio-Economic Policy and Programming. This committee is developing a workplan which will address First Nation partnerships.<br><br>Regional offices are undertaking consultations on FTAs in general. | Director General, Socio-Economic Policy and Programming<br><br>Director General, Information Management<br><br>Director General, Finance<br><br>Regional Directors, Funding Services | August 29, 1997<br><br>March 31, 1998 |
| 13. It is recommended that financial information (at the program level consistent with departmental authorities) on actual expenditures be provided on a national basis within the departmental estimates. | 64 | Transfer Payments Directorate initiated discussions with Statistics Canada on including First Nations in the System of National Accounts. A model was developed and discussed with regions.<br><br>Further work will be conducted as part of DIAND's information requirements. Specifically, the level of detail required and associated impacts. | Director, Transfer Payments | August 31, 1998 |
| 14. It is suggested that consideration be given to replacing the 1986 Treasury Board | 65 | The department developed an FTA authority and submitted it to Treasury Board who informed the department it was not necessary because DIAND already has the required authority under the Alternative Funding Agreement Authority.<br><br>However, Transfer Payments Directorate recognizes that issues surrounding authorities may need to be communicated to regions and this will be part of the communications plan suggested in recommendation 8. | Director, Transfer Payments | March 31, 1997 |

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| 15. It is recommended that there be a DIAND FTA agreement data review guide, with appropriate monitoring criteria and checklists like those in the entry assessment guide. These reviews should be conducted prior to signing the FTAs and the standardized program requirements and evaluation methodology should be communicated to First Nations prior to the reviews thereby assisting in garnering greater acceptance at the First Nation level. | 65 | A data review methodology is being developed by the Atlantic Region. As part of this process, the Directors General of Departmental Audit and Evaluation, Finance, Information Management, Socio-Economic Policy and Programming will be consulted. | Director, Funding Services, Atlantic Region | March 31, 1998 |
| 16. It is recommended that the department's information management system be updated to reflect interdepartmental initiatives. | 65 | Transfer Payments Directorate will work with the Director, Departmental Resource Management Systems regarding including other federal government departments requirements in TPMS and TPMS-Manager as these requirements are defined (on-going item). | Director, Transfer Payments<br><br>Director, Departmental Resource Management System | March 31, 1997 |
| 17. It is recommended that DIAND senior officials in coordination with central agencies approach other federal departments about entering into memorandums of agreement re-affirming the commitment to enter into interdepartmental block funding arrangements with First Nations. | 65 | In August 1996, DIAND held a workshop with Health Canada regarding including Health Canada's funding and reporting requirements within DIAND funding agreements.<br><br>In November 1996, the Deputy Ministers of DIAND and Human Resources Canada met and discussed the possibility of joint agreements for First Nations. An agreement concerning an "Efficiencies and Effectiveness Initiative" was signed by the Deputy Ministers of DIAND and Health Canada.<br><br>Further work is continuing with other departments. | Director, Transfer Payments | Completed<br><br>March 31, 1998 |